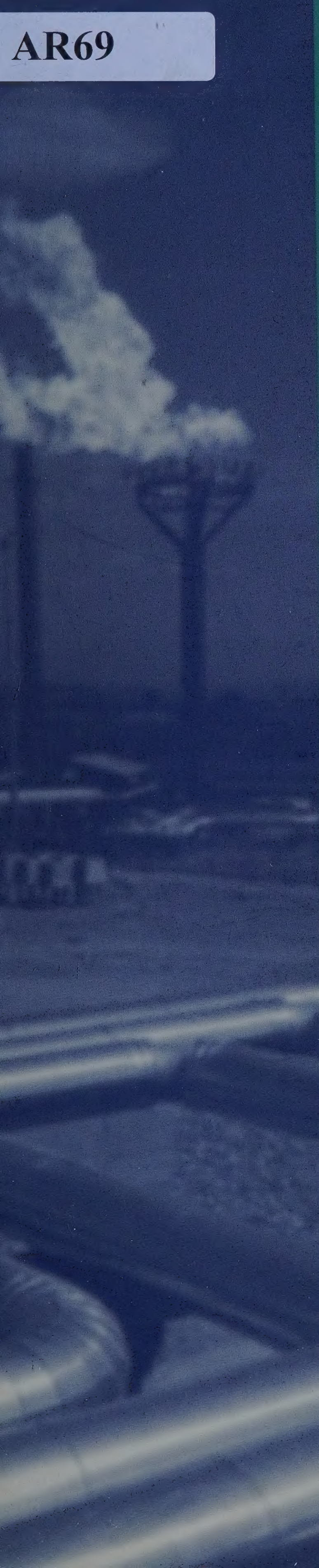


StaRS Income Fund pg. 38 -

MIDDLEFIELD INCOME FUNDS

COMPASS

MAXIN

MINT

PATHFINDER

SAGE

STaRS

Annual Report 2002

THE CO-ADVISORS

Guardian Capital Inc., a member of the Guardian Group of Companies, has been appointed a Co-Advisor with respect to the portfolios of COMPASS, MAXIN, PATHFINDER and STaRS *Income Funds*. GCI is wholly-owned by Guardian Capital Group Limited. GCI was established in 1962 and currently manages approximately $9.5 billion in client assets. GCI provides a comprehensive range of domestic and global investment management services to the institutional market and has one of the broadest product ranges among Canadian institutional investment managers, spanning equity, fixed-income and balanced investment mandates. GCI manages segregated portfolios, pooled funds and several income funds, including the GGOF Monthly High Income fund, which was established in 1996 and is one of Canada's largest investors in the income trust sector with assets under management of approximately $1.2 billion as of February 28, 2003.

Middlefield Securities Limited, an affiliate of the Manager, has also been appointed a Co-Advisor to these four funds. MSL is registered as an investment dealer – equities and managed accounts under the *Securities Act* (Ontario). MSL and its affiliates provide a variety of financial services including investment management, corporate finance, merchant banking, mergers and acquisitions, advisory and security placement services.

Together, Middlefield and Guardian are the largest investment manager in the income trust sector, with approximately $2 billion in income trust assets under management. Investors in these funds benefit from the experience and expertise of the Guardian team headed by John Priestman, Managing Director of Guardian Capital Inc., who has been a leading manager of income trust portfolios since 1996. The Guardian expertise is complemented by that of the MSL team led by Garth Jestley, who has over 25 years of investment management, investment banking and corporate banking experience.

MIDDLEFIELD INCOME FUNDS

COMPASS *Income Fund*
A TSX listed closed-end investment trust that invests in a diversified portfolio of income trusts with an emphasis on business trusts, supplemented by pipeline and power generation trusts, REITs and oil and gas royalty trusts. TSX stock symbol: CMZ.UN.

MAXIN *Income Fund*
A TSX listed closed-end investment trust that invests in a diversified portfolio of income trusts consisting primarily of issuers in the business trust and oil and gas royalty trust asset classes, supplemented by the stability of REITs. TSX stock symbol: MXZ.UN.

MINT *Income Fund*
A TSX listed closed-end investment trust that invests in a portfolio of income trusts complemented by high yield debt. Business trusts comprise the largest asset class in MINT's investment portfolio, supplemented by REITs, oil and gas royalty trusts and pipeline and power generation trusts. TSX stock symbol: MID.UN.

PATHFINDER *Income Fund*
A TSX listed closed-end investment trust that invests in a balanced portfolio of business trusts, REITs, oil and gas royalty trusts and pipeline and power generation trusts. TSX stock symbol: PAZ.UN.

SAGE *Income Fund*
A TSX listed closed-end investment trust that invests in a diversified portfolio of income trusts and high yield debt. SAGE's portfolio is focused primarily on the oil and gas royalty trust sector, supplemented by investments in business trusts, high yield debt, REITs, and pipeline and power generation trusts. TSX stock symbol: BBB.UN.

STaRS *Income Fund*
A TSX listed closed-end investment trust that invests in a diversified portfolio of income trusts with an emphasis on oil and gas royalty trusts, supplemented by REITs and business trusts, as well as high yield debt. To provide downside protection, STaRS has entered into a forward agreement with CIBC pursuant to which CIBC will make a capital support payment of $5.00 per unit to the fund on the termination date. TSX stock symbol: STZ.UN.

L to R CO-ADVISORS: JOHN PRIESTMAN, MANAGING DIRECTOR, GUARDIAN CAPITAL INC. AND GARTH JESTLEY, PRESIDENT, MIDDLEFIELD GROUP.

INCOME FUND REVIEW

Welcome to our first annual report devoted to Middlefield's closed-end income funds. The past year has proven to be a busy one for Middlefield, commencing in December 2001 with the closing of STaRS *Income Fund* and continuing with the launch of COMPASS *Income Fund* in April 2002 and PATHFINDER *Income Fund* in October 2002. Each of these funds, which Middlefield co-advises with Guardian Capital Inc., is focused on the income trust sector and has two main objectives: (i) to provide investors with a 9% annual yield with significant tax deferral and (ii) to return to investors at least the initial $10.00 per unit purchase price at termination. All targeted distributions to investors have been met since inception.

CLOSED-END INCOME FUNDS HAVE FOUND INCREASING FAVOUR AMONG CANADIAN INVESTORS IN THE PAST SEVERAL YEARS.

Along with MINT *Income Fund* and SAGE *Income Fund*, launched in 1997, Middlefield now manages over $500 million in income trust assets.

The launch of Middlefield's new generation of closed-end funds focused on income trusts is founded upon our advisory partnership with Guardian Capital Inc. Together, Middlefield and Guardian are the largest investment manager in the income trust sector, with approximately $2 billion in income trust assets under management. Investors in these funds benefit from the experience and expertise of John Priestman, Managing Director of Guardian Capital Inc., who has been a leading manager of income trust portfolios since 1996.

Closed-end income funds have found increasing favour among Canadian investors in the past several years. The appeal of these funds is three-fold: (i) participation in a diversified pool of securities which is professionally managed at a lower cost than traditional mutual funds; (ii) enhanced returns through the prudent use of leverage; and (iii) good liquidity through a TSX listing in addition to annual redemptions at net asset value.

Income trusts are now an established asset class, having carved out an important niche in the Canadian capital markets. Income trusts have evolved from approximately $15 billion in market capitalization and 50 issuers in 1997 to approximately $50 billion in market capitalization and more than 110 issuers today. They currently represent approximately 5% of the market capitalization of all TSX-listed companies. Income trusts are an attractive investment alternative, providing less volatility and substantially higher returns than traditional equities over the past several years. In 2002, the various Canadian income trust

indices significantly outperformed the broader S&P/TSX Composite. This outperformance has been accompanied by substantial new equity issuance by income trusts accounting for approximately 86% of total Canadian equity capital market activity in 2002 on a combined IPO and follow-on offering basis.

While each of our funds maintains a distinct 'personality' through differing asset mixes, the investment philosophy and style underpinning each fund is the same. As a primary means of risk mitigation, our funds are broadly diversified both by asset class and issuer. Generally, we invest only in those issuers that are (i) well suited to the income trust model (ii) managed by experienced management teams with good track records and (iii) reasonably priced. We take a longer-term view of portfolio management, and employ a strategy that involves tactical rebalancing around core positions as well as shifts between the various asset classes based upon the changing outlook for each.

In April 2002, Middlefield launched COMPASS *Income Fund*, which closed at $147 million. COMPASS is designed to take advantage of the growth in the emerging business trust sector. Of the $8 billion of income trust IPOs in 2002, approximately 50% was in the business trust sector. This has provided COMPASS with a broad selection of new issuers to choose from, many of which came to market at attractive yields. PATHFINDER *Income Fund* closed in October 2002 at $155 million. PATHFINDER provides investors with the most balanced, diversified exposure to income trusts, with approximately equal weightings in the four income trust asset classes. The balanced diversification between economically sensitive sectors, namely oil and gas royalty trusts and business trusts, and interest rate sensitive sectors, namely REITs and power and pipeline trusts, is intended to provide a natural hedge for investors in PATHFINDER during periods of economic growth accompanied by rising interest rates or, alternatively, economic weakness accompanied by declining interest rates.

We anticipate that 2003 will continue to provide good opportunities in the income trust sector. Due to the negative market response to the over-supply of income trusts coming to market in late 2002, we expect a more disciplined IPO market in 2003, particularly for business trusts. Notwithstanding a slower pace of new issuance for 2003, we expect that business trusts will experience the most significant growth in terms of both number of issuers and market capitalization in the year ahead. In the oil and gas royalty trust sector, we expect that some consolidation will occur, with some of the smaller trusts targeted by larger issuers in an effort to replenish reserves. Income trusts will continue to benefit from the absence of attractive income-based alternatives for investors. The fixed-income market is in the latter stages of a twenty-year bull market, as interest rates have declined steadily over an extended period. With little room left for further rate declines, we expect that interest rates will edge up over the next year or two, resulting in some capital depreciation for bondholders. Equity investors continue to watch the dividend yield of the S&P/TSX Composite languish at approximately 2% per annum, positioning income trusts as a compelling alternative investment opportunity.

WE ANTICIPATE THAT 2003 WILL CONTINUE TO PROVIDE GOOD OPPORTUNITIES IN THE INCOME TRUST SECTOR.

We recently marketed MAXIN *Income Fund*. MAXIN is targeting a 10% per annum yield and features an option that permits investors to purchase units through an exchange of units of eligible income trusts. In light of anticipated slow to moderate recovery in the North American economy over the next 12 to 24 months, MAXIN is weighted toward the more economically sensitive income trust sectors, namely oil and gas royalty trusts and business trusts.

W. Garth Jestley
President and CEO

MAXIN INCOME FUND

MAXIN INCOME FUND

MAXIN *Income Fund* is co-advised by Guardian Capital and Middlefield and is focused on the two highest yielding income trust asset classes in the income trust universe, namely business trusts and oil and gas royalty trusts. The investment objectives for MAXIN are (i) to provide stable monthly cash distributions targeting 10% per annum on the original issue price and (ii) the repayment of unitholders' original investment of $10.00 per unit at termination in 2013.

The co-advisors anticipate that the North American economy will grow moderately over the next 12 to 24 months. To take advantage of this growth, the Fund's initial portfolio has been designed to overweight the more economically sensitive sectors of the income trust universe. As a result, business trusts and oil and gas royalty trusts will each comprise 40% of the portfolio at inception. In addition, approximately 20% of the portfolio at inception will be invested in REITs, which are characterized by stable distributions.

The business trust sector has rapidly expanded over the last two years and offers significant benefits including an attractive current yield as well as industry and geographic diversification. In order to achieve greater stability in distributions and mitigate capital risk, professional management and broad diversification are essential. It is anticipated that the business trust sector will continue to grow as income trusts gain increased acceptance among institutional investors over the next few years.

Oil and gas royalty trusts have become a major part of the Canadian oil and gas market, as they now represent virtually the entire intermediate sector. The oil and gas royalty trust sector is expected to continue to grow as a result of the complementary nature of the maturing Canadian Western Sedimentary Basin and the lower risk business model of royalty trusts relative to oil and gas exploration and production companies. Finally, another trend of note is that individuals and institutions resident in the U.S. have begun investing in the larger Canadian oil and gas royalty trusts, providing further capital for growth and increasing liquidity in the sector.

MAXIN will focus on income trusts with the following attributes:

Business Trusts

- low capital expenditure requirements, stable cash flows and dominant market positions
- seasoned management teams with strong operating track records
- unused capacity to increase market share
- healthy balance sheets with manageable levels of debt
- opportunities to consolidate fragmented industries

Oil and Gas Royalty Trusts

- internal management structures
- relatively low debt to cash flow ratios
- long reserve lives
- strong management teams with a history of growing reserves through accretive acquisitions

The MAXIN *Income Fund* Initial Public Offering closed on April 15, 2003 for total proceeds of $80,000,000. The TSX stock symbol is MXZ.UN.

COMPASS
INCOME FUND

COMPASS had a successful inaugural year, meeting its objective of providing unitholders with steady monthly cash distributions. Since the commencement of operations on April 16, 2002 to December 31, 2002, COMPASS provided unitholders with a total rate of return of 8.4%. On an annualized basis, the current per unit distribution rate of $0.075 per month represents a cash-on-cash yield of 9.0% based on the issue price of $10.00 per unit. In addition, a special distribution of $0.05 per unit was declared payable to unitholders of record on April 30, 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS

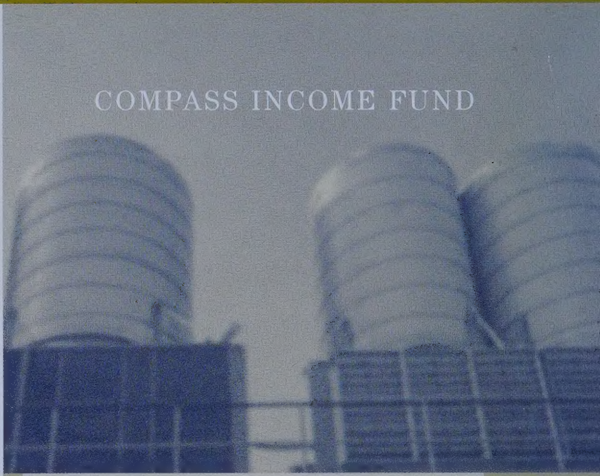
INVESTMENT OBJECTIVES AND STRATEGY

The objectives of COMPASS are to provide unitholders with a stable monthly income stream of 9% per annum and to return the original issue price of the units to unitholders upon termination of the Fund in December 2009. Monthly distributions paid by COMPASS provide an attractive cash-on-cash yield and favourable tax treatment. The Fund combines the investment management experience of both Middlefield and Guardian Capital Inc., who act as co-advisors to the Fund, responsible for asset mix and security selection.

COMPASS seeks to achieve its objectives through careful security selection with a bias towards those issuers with low capital expenditure requirements, stable cash flows and dominant market positions. Business trusts, representing a diverse collection of industries, comprise the heaviest weighting in COMPASS' portfolio. The business trust component is supplemented by pipeline and power generation trusts and REITs, which offer cash flow stability supported by contractual revenue streams. This strategy provides a favourable balance of stable current income, significant tax deferral and potential for capital appreciation.

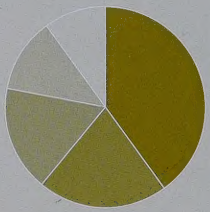
MANAGEMENT AND ADVISORY SERVICES

Guardian Capital Inc. ("GCI") and Middlefield Securities Limited ("MSL") are the co-advisors (the "Co-Advisors") to the Fund's investment portfolio. GCI currently manages approximately $9.5 billion in client assets and provides both domestic and global investment management services to the institutional market. It has one of the broadest product ranges among Canadian institutional investment managers spanning equity, fixed income and balanced investment mandates. GCI manages segregated portfolios, pooled



PORTFOLIO SUMMARY

as at December 31, 2002



Business Trusts	40%
REITs	21%
Power Generation Trusts	17%
Pipeline Trusts	12%
Oil and Gas Royalty Trusts	10%

TOP FIVE HOLDINGS

as at December 31, 2002

1. Davis + Henderson Income Fund
2. Great Lakes Hydro Income Fund
3. Superior Propane Income Fund
4. TransAlta Power, L.P.
5. Northland Power Income Fund

funds and income funds. MSL and its affiliates provide a variety of financial services including investment management, corporate finance, merchant banking, mergers and acquisitions, advisory and security placement services. The Co-Advisors have established an investment committee comprised of nominees of each Co-Advisor to review and approve all investment recommendations.

Management is responsible for the existence of appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable. The board of directors and audit committee have an oversight role to ensure the integrity of the reported information.

SECTOR ANALYSIS

Business Trusts 40.4%

COMPASS increased its exposure to the business trust sector with the addition of several new trusts. Among those new business trusts added to the Fund's portfolio were Associated Brands Income Fund and KCP Income Fund. Associated Brands is a leader in the private-label dry-mix food product industry in North America. The company supplies 43 of the top 50 retailers in North America and has longstanding relationships with its key customers. Associated Brands' strategy is focused on building market share in the U.S. through leveraging its existing product lines and excess manufacturing capacity. KCP Income Fund is North America's largest producer of private label household bleach and cleaning products. COMPASS also maintained its core positions in Davis + Henderson Income Fund and BFI Canada Income Fund. Davis + Henderson has a dominant position in the cheque supply outsourcing business in Canada and manages the cheque supply programs for most of the financial institutions in Canada, including the six largest Canadian banks. BFI Canada is the second largest full service waste management business in Canada. It operates in a recession resistant industry and its customer base is diversified by geography. The expansion of an existing landfill together with continued cost rationalization and productivity improvements should drive growth in cash flow.

Real Estate Investment Trusts 20.5%

The Canadian REIT universe outperformed the broader equity market by generating a total return of 7.6%, versus a 12.3% decline experienced by the S&P/TSX Composite Total Return Index in 2002. Since the mid-1990s, REITs have delivered strong returns through various market cycles, outperforming the S&P/TSX in six of the past eight years. The Canadian REIT market continues to be supported by reasonable valuations, stable net asset values, low interest rates and a transparent business model. Notwithstanding, apartment REITs are currently experiencing some weakness. Competition from low interest rate-financed home ownership and the corresponding increased supply of condominiums in the GTA has drawn demand away from the rental market. In light of these developments, the Fund has adopted an underweight position in the residential REIT sector.

Power Generation Trusts 16.3%

COMPASS selectively invests in power generation trusts that demonstrate good stability and growth potential, as well as those that are supported by the intellectual and financial capital of their sponsoring companies. During the fourth quarter of 2002, COMPASS modestly trimmed its exposure to the sector by reducing its positions in Algonquin Power Income Fund, Great Lakes Hydro Income Fund and TransAlta Power, L.P. Nonetheless, power generation trusts remain an integral part of COMPASS' portfolio and provide investors with stable cash distributions supported by high quality assets and long-term power purchase agreements with creditworthy utilities.

Pipeline Trusts 12.2%

Exposure to the pipeline trust sector was also reduced during the fourth quarter of 2002. As with power generation trusts, pipeline trusts are characterized by very stable revenue streams and exhibit a strong correlation with movements in interest rates. As evidence of a sustained economic recovery builds, we expect the Bank of Canada will raise interest rates to keep inflation within its target range of 1% to 3%.

Oil and Gas Royalty Trusts 10.3%

For a third consecutive year, conventional oil and gas royalty trusts were excellent performers. Stronger commodity prices produced exceptional returns for investors. The main issues affecting oil prices were the possibility of war with Iraq and tightening crude oil supplies, which was compounded in December by a labour strike in Venezuela that effectively shut down oil production. Natural gas prices also strengthened due to widespread concerns over declining North American gas supply. These events had a positive impact on several royalty trust investments held within COMPASS' investment portfolio, such as Advantage, Ultima and Enerplus, which reported total returns of 81%, 44% and 27% respectively, for the twelve months ended December 31, 2002.

OPERATIONS

Income and Expenses

COMPASS commenced operations on April 16, 2002. As a result, there is no comparative prior period. Total investment income for the period ended December 31, 2002 amounted to $12.7 million, most of which was derived from the Fund's investment in income trusts. Net investment income for the period amounted to $10.0 million or $0.69 per unit. From commencement of operations to December 31, 2002, the net gain on the Fund's investments totaled $2.0 million or $0.09 per unit.

Management fees for the period ended December 31, 2002 amounted to $1.2 million and interest and bank charges amounted to $1.0 million for the same period. The ratio of management fees and other operating expenses (excluding interest and bank charges) to average net asset value ("MER") was 1.75%.

Balance Sheet

At year-end, the Fund's net asset value ("NAV") per unit was $9.68 compared to $9.43 at commencement of operations on April 16, 2002. The growth in the Fund's NAV per unit is a reflection of the strong performance of the income trust sector. A $1.8 million unrealized gain has been reflected in the value of the Fund's investment portfolio at year end.

BUSINESS RISK ASSESSMENT

There are a number of risks associated with the investment business. The following outlines some of the principal risks.

Market Risk

Market risk is the exposure to capital market price changes which have a direct effect on the net asset value of the Fund. Active management of the securities held in the investment portfolio by the Co-Advisors' investment committee may reduce the volatility of market price fluctuations.

Income Risk

Income risk arises from a number of factors related to the operating performance of the issuers of the securities held in the portfolio. These include, for example, commodity prices, interest rates and competition. These may adversely affect the issuer's income and thereby reduce the amount of dividends, interest and other income distributions they make to their securityholders. Diversification and active management by the Co-Advisors to maximize income mitigates exposure to this risk.

Tax Authorities and Securities Regulators

Changing legislation can reduce the tax advantages of certain investment vehicles. Increased regulation can also have a negative impact on expense control programs. Middlefield constantly monitors legislative and regulatory proposals so as to anticipate the effects on its investment portfolios.

OUTLOOK

In 2003, we expect the healthy market conditions in the income trust sector that prevailed in 2002 to continue. Although the Bank of Canada will likely return to a tightening mode over the next 12 to 18 months to keep inflation in check, the extent to which interest rates rise is expected to be moderate, reflecting the uncertainty with respect to both the sustainability of the economic recovery in the U.S. and geopolitical tensions. In the near term, the prospect for a continuing correction in the price of oil appears likely, precipitated by production in Venezuela returning to normal levels and a resolution to the conflict in Iraq over the next several months. Notwithstanding these developments, the diminished supply of natural gas and the discipline displayed by OPEC in controlling crude oil production should keep oil and gas prices at levels which will support current distribution targets for royalty trusts. Generally, we expect the IPO pipeline of income trusts to remain relatively strong, and will only participate in those that meet our investment criteria.

We anticipate investors will continue to demand income producing investments as a part of an overall portfolio strategy. Historically, income trusts have been purchased primarily by individual investors or by funds purchased by individual investors. More recently, we have seen increasing levels of participation by influential institutional investors, particularly pension funds, which will provide further liquidity to this asset class.

We anticipate that COMPASS will continue to distribute $0.075 per unit on a monthly basis throughout the course of 2003, representing a yield of 9% on an annualized basis on the offering price of $10.00 per unit.

ADDITIONAL INFORMATION

Unitholders of COMPASS can acquire additional units by participating in the Automatic Distribution Reinvestment Plan (the "Plan"). The Plan enables unitholders to reinvest their monthly distributions in additional units of COMPASS thereby achieving the benefit of compounding returns. The Plan also allows participants to purchase additional units for cash. The optional cash purchases require a minimum of $100 per payment. Please contact our Toronto office to obtain a copy of the Plan.

Units of COMPASS trade on the Toronto Stock Exchange under the symbol CMZ.UN.

AUDITORS' REPORT

To the Unitholders of COMPASS *Income Fund*

We have audited the statements of net assets and investment portfolio of COMPASS *Income Fund* (the "Trust") as at December 31, 2002 and the statements of operations, changes in net assets, net realized gain from investment transactions and financial highlights for the period April 16, 2002 (date of commencement of operations) to December 31, 2002. These financial statements are the responsibility of the Manager of the Trust. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2002 and its results of operations, changes in net assets, net realized gain from investment transactions and financial highlights for the period then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

TORONTO, ONTARIO
March 14, 2003

DELOITTE & TOUCHE LLP
Chartered Accountants

STATEMENT OF NET ASSETS

As at December 31, 2002

Assets:	
Investments at Market Value	$ 174,689,000
Income and Interest Receivable	1,920,182
Cash	472,978
	177,082,160
Liabilities:	
Loan Payable (Note 5)	38,711,401
Unitholder Distributions Payable	1,061,239
Accounts Payable and Accrued Liabilities	683,383
	40,456,023
Net Assets	$ 136,626,137
Units Issued and Outstanding (Note 7)	14,121,053

The accompanying notes to financial statements are an integral part of these financial statements.

Approved by the Board of Directors of Middlefield COMPASS Management Limited, as Manager:

Director: W. Garth Jestley

Director: Murray J. Brasseur

STATEMENT OF FINANCIAL HIGHLIGHTS

For the period April 16, 2002 (date of commencement of operations) to December 31, 2002

Data per Unit (Note 4)	
Net Asset Value at Beginning of Period	$ 9.43
Income from Investment Operations:	
Net Investment Income	0.69
Net Realized and Unrealized Gain on Investments	0.09
	0.78
Distributions to Unitholders	0.53
Net Asset Value at End of Period	$ 9.68
Ratios/Supplemental Data (Note 4)	
Total Assets at End of Period	$ 177,082,160
Total Net Assets at End of Period	$ 136,626,137
Weighted Average Net Assets	$ 139,641,725
Management Expense Ratio	1.75%
Portfolio Turnover Rate	13.38%
Annual Rate of Return	N/A

STATEMENT OF OPERATIONS

For the period April 16, 2002 (date of commencement of operations) to December 31, 2002

Investment Income:	
Income from Investments	$ 12,546,770
Interest	173,224
	12,719,994
Expenses (Note 6):	
Management Fee	1,173,761
Interest and Bank Charges	959,679
Service Fee to Investment Dealers	305,273
General and Administrative	265,715
	2,704,428
Net Investment Income	10,015,566
Net Realized and Unrealized Gain on Investments:	
Net Realized Gain from Investment Transactions	133,853
Net Unrealized Gain on Investments	1,837,278
Net Gain on Investments	1,971,131
Net Increase in Net Assets Resulting from Operations	$ 11,986,697

STATEMENT OF CHANGES IN NET ASSETS

For the period April 16, 2002 (date of commencement of operations) to December 31, 2002

Net Assets at Beginning of Period	$ –
Operations:	
Net Increase in Net Assets Resulting from Operations	11,986,697
Distributions to Unitholders	(7,627,438)
Unitholder Transactions:	
Proceeds from Issue of Trust Units, Net	138,916,869
Repurchase of Trust Units	(6,649,991)
	132,266,878
Net Increase in Net Assets	136,626,137
Net Assets at End of Period	$ 136,626,137

The accompanying notes to financial statements are an integral part of these financial statements.

STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2002

Description	No. of Units	Cost	Market Value
Advanced Fiber Technologies Income Fund	395,000	$ 4,026,892	$ 4,088,250
Associated Brands Income Fund	125,000	1,329,155	1,350,000
Atlas Cold Storage Income Trust	485,000	5,351,876	5,456,250
BFI Canada Income Fund	420,000	4,262,304	4,977,000
Chemtrade Logistics Income Fund	300,000	4,271,000	4,200,000
Clearwater Seafoods Income Fund	310,000	3,161,502	3,206,950
Connors Bros. Income Fund	260,000	2,953,277	3,562,000
Davis + Henderson Income Fund	455,000	4,744,344	5,851,300
Halterm Income Fund	425,000	3,747,710	3,740,000
Heating Oil Partners Income Fund	335,000	3,647,328	3,963,050
IAT Air Cargo Facilities Income Fund	150,000	1,795,500	1,510,500
KCP Income Fund	225,000	2,250,000	2,553,750
Livingston International Income Fund	300,000	3,112,292	3,411,000
Menu Foods Income Fund	175,000	1,750,000	2,397,500
Noranda Income Fund	155,000	1,559,071	1,526,750
Rogers Sugar Income Fund	175,000	819,925	822,500
Sun Gro Horticulture Income Fund	165,000	1,770,293	1,724,250
Superior Propane Income Fund	290,000	5,461,493	5,707,200
Versacold Income Fund	675,000	5,667,750	5,433,750
Westshore Terminals Income Fund	1,075,000	6,126,647	5,246,000
BUSINESS TRUSTS: 40.4%		67,808,359	70,728,000
Algonquin Power Income Fund	565,000	5,334,780	5,243,200
Boralex Power Income Fund	540,000	5,626,850	5,535,000
Fort Chicago Energy Partners L.P.	630,000	5,448,729	5,197,500
Gaz Metropolitain and Company, Limited Partnership	50,000	876,487	947,500
Great Lakes Hydro Income Fund	375,000	5,248,053	5,711,250
Inter Pipeline Fund	850,000	5,803,249	5,227,500
Northland Power Income Fund	510,000	5,414,087	5,610,000
Pembina Pipeline Income Fund	500,000	5,690,336	5,450,000
Taylor NGL Limited Partnership	1,000,000	4,687,007	4,540,000
TransAlta Power, L.P.	600,000	5,330,702	5,616,000
TransCanada Power, L.P.	30,000	973,210	927,000
PIPELINE AND POWER GENERATION TRUSTS: 28.5%		50,433,490	50,004,950
CHIP Real Estate Investment Trust	475,000	4,392,441	4,275,000
Canadian Real Estate Investment Trust	260,000	3,397,828	3,413,800
Cominar Real Estate Investment Trust	150,000	1,863,354	1,810,500
H&R Real Estate Investment Trust	330,000	4,470,432	4,405,500
Morguard Real Estate Investment Trust	585,000	5,228,014	4,972,500
O&Y Real Estate Investment Trust	265,000	2,848,904	2,663,250
Retirement Residences Real Estate Investment Trust	200,000	2,584,006	2,352,000
RioCan Real Estate Investment Trust	390,000	4,686,019	4,863,300
Summit Real Estate Investment Trust	370,000	5,626,577	5,598,100
TGS North American Real Estate Investment Trust	150,000	1,500,050	1,507,500
REAL ESTATE INVESTMENT TRUSTS: 20.5%		36,597,625	35,861,450
Advantage Energy Income Fund	300,000	3,441,654	3,900,000
ARC Energy Trust	320,000	3,960,815	3,808,000
Canadian Oil Sands Trust	85,000	3,652,425	3,234,250
Enerplus Resources Fund	100,000	2,555,000	2,805,000
Freehold Royalty Trust	170,000	1,712,465	1,849,600
Ultima Energy Trust	485,000	2,689,889	2,497,750
OIL AND GAS ROYALTY TRUSTS: 10.3%		18,012,248	18,094,600
CASH: 0.3%		472,978	472,978
Total Investment Portfolio, including Cash		$ 173,324,700	$ 175,161,978

The accompanying notes to financial statements are an integral part of this financial statement.

STATEMENT OF NET REALIZED GAIN FROM INVESTMENT TRANSACTIONS

For the period April 16, 2002 (date of commencement of operations) to December 31, 2002

Proceeds from Sale of Investments	$ 21,100,638
Less: Cost of Investments Sold:	
Owned at Beginning of Period	–
Purchased During Period	193,818,507
Owned at End of Period	(172,851,722)
	20,966,785
Net Realized Gain from Investment Transactions	$ 133,853

NOTES TO FINANCIAL STATEMENTS

December 31, 2002

1. COMPASS *Income Fund*

COMPASS *Income Fund* (the "Fund") is a closed-end investment trust established under the laws of the Province of Ontario on March 27, 2002. Middlefield COMPASS Management Limited (the "Manager") is both the manager and trustee and Guardian Capital Inc. and Middlefield Securities Limited are the co-advisors to the Fund. The Fund was listed on the Toronto Stock Exchange and effectively commenced operations on April 16, 2002 when it first issued units through an initial public offering.

2. Investment Objectives and Strategy

The Fund's investment objectives are (i) to provide unitholders with a stable stream of monthly distributions and (ii) to return the original issue price of the units to unitholders upon termination of the Fund on December 31, 2009. The net proceeds of the initial offering together with draw-downs under the loan facility are invested in a diversified portfolio of income trusts with an emphasis on business trusts, supplemented by pipeline and power generation trusts, real estate investment trusts and oil and gas royalty trusts.

3. Summary of Significant Accounting Policies

a. Valuation of Investments

Securities listed on a public stock exchange are valued at their closing sale price on the valuation date. Securities not traded on that date are valued at the average of the closing recorded bid and ask prices. Short-term investments are valued at cost.

b. Investment Transactions and Income Recognition

Securities transactions are accounted for as of the trade date and any realized gains or losses from such transactions are calculated on an average cost basis. Income from investments is recognized on the ex-dividend or ex-distribution date, and interest income on an accrual basis.

c. Income Taxes

The Fund qualifies as a mutual fund trust under the provisions of the *Income Tax Act* (Canada). Under the terms of the Declaration of Trust, any taxable income of the Fund is distributable monthly to unitholders of record date. The Fund is not subject to tax on the income distributed to unitholders. Accordingly, no provision for income taxes is required.

d. Foreign Currency Translation

Foreign currency amounts are translated into Canadian dollars as follows: market value of investments, forward currency contracts and other assets and liabilities, at the closing rate of exchange on each business day; income and expenses, and purchases, sales and settlements of investments, at the rate of exchange prevailing on the respective dates of such transactions.

e. Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

4. Statement of Financial Highlights

The information disclosed in this statement is calculated as follows:

a. Net asset value per unit is calculated at the end of each day on which the Toronto Stock Exchange is open for trading by dividing the net assets of the Fund by its outstanding units.

b. Net investment income per unit is calculated based on the average number of units outstanding during the period.

c. The management expense ratio which is the ratio of expenses to average net assets is based on annualized expenses for the stated period, excluding interest and bank charges.

d. Portfolio turnover rate is calculated based on the lesser of purchases or sales of investments divided by the average market value of the portfolio excluding short-term investments.

e. Annual rate of return represents the historical total return of an investment for the year, assuming reinvestment of all distributions. Returns are not reported in the year that the Fund was established.

5. Loan Payable

The revolving term credit facility is for $60 million and is secured by a general security agreement. The facility matures on May 12, 2003 and is subject to annual renewal. At December 31, 2002, loans outstanding included bankers' acceptances with a face value of $39 million.

6. Management Fee and Operating Expenses

The Manager provides investment and administrative services to the Fund. In consideration for such services the Manager receives a management fee equal to 1.1% per annum of the net asset value, calculated and paid monthly in arrears based on the net asset value at the end of the preceding month. The Manager is reimbursed for reasonable costs related to maintaining the Fund and preparation and distribution of financial statements and other documents sent to the unitholders. The Fund is responsible for the payment of all expenses relating to the operation of the Fund and the carrying on of its business.

7. Unitholders' Equity

The Fund is authorized to issue an unlimited number of transferable, redeemable trust units, each of which represents an equal, undivided interest in the net assets of the Fund. All units have equal rights and privileges.

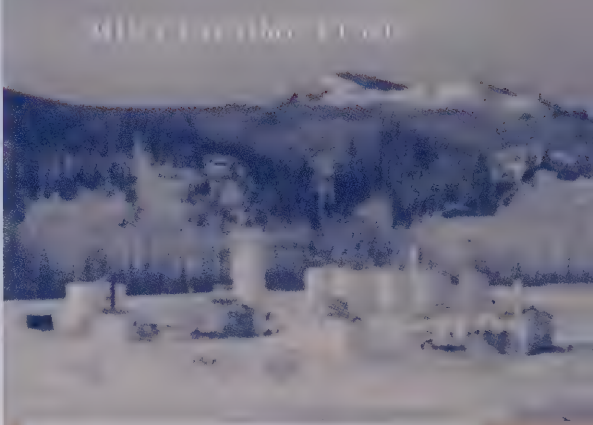
On April 16, 2002, the Fund issued 13.5 million units at $10 per unit for proceeds, net of agents' fees and issue costs, of $126.8 million. On May 9, 2002, the Fund issued 1.2 million units at $10 per unit for proceeds, net of agents' fees and issue costs, of $11.3 million and on May 16, 2002, the Fund issued an additional 80,847 units at $10 per unit for proceeds, net of agents' fees and issue costs, of $0.8 million pursuant to the exercise of the over-allotment option. During 2002, the Fund purchased 674,600 units pursuant to a normal course issuer bid.

8. Distributions

Commencing with the month ended June 30, 2002 and on a monthly basis thereafter, each unitholder is entitled to receive their pro rata share of cash distributions. For the period ended December 31, 2002, distributions amounted to $0.53 per unit. Distributions of the Fund, at the discretion of the unitholder, are reinvested in additional units of the Fund, under the Distribution Reinvestment Plan (the "Plan") without sales charge. For the period ended December 31, 2002, 20,956 units were purchased under the Plan of which 14,826 were issued from treasury.

Mint

MINT had a very successful year, meeting its objective of providing unitholders with steady quarterly cash distributions. During 2002, MINT provided unitholders with a total return of 11.6%. On an annualized basis, the current per unit distribution rate of $0.18 per quarter represents a cash-on-cash yield of 10% based on a unit market price of $7.25.



MANAGEMENT'S DISCUSSION AND ANALYSIS

INVESTMENT OBJECTIVES AND STRATEGY

The primary objectives of MINT *Income Fund* are to provide unitholders with a high level of sustainable income distributed quarterly over the life of the Fund and a cost-effective method of reducing the risk of investing in high income securities. The Fund invests in a diversified portfolio of income trusts. Investments also may include high yield debt, convertible debt and various debt-like securities with returns linked to movements in equity prices, commodity prices or currencies. Many of the securities in which MINT invests provide tax-advantaged forms of income which benefit MINT's unitholders on an after-tax basis. The Fund may invest up to 30% of the cost amount of all property held by it in foreign securities and makes such investments primarily in securities of U.S. corporate issuers.

Recent conditions in the economy and the capital markets have created an ideal environment for income trusts. The size of the asset class measured in market capitalization currently exceeds $50 billion, representing approximately 5% of the total market capitalization of all TSX-listed companies. The market capitalization of income trusts increased by over $15 billion in 2002, of which approximately $9.5 billion represented new issuance of income trust units. More recently, significant institutional investors have begun to invest in income trusts on an increasing basis due to the attractive yields and the prospect for stable distributions.

MINT invests selectively in the income trust sector with a bias towards those trusts with low capital expenditure requirements, stable cash flows and dominant market positions. Business trusts, represented by over 50 issuers across a number of industries, will continue to comprise a significant weighting in MINT's portfolio, supplemented by REITs which provide stable distributions generated from contractual cash flows. The high yield debt weighting in the portfolio has been reduced substantially during 2002 and will continue to be monitored closely. Various high yield debt holdings may be replaced by more liquid income trust issuers

PORTFOLIO SUMMARY

as at December 31, 2002

Business Trusts	43%
REITs	20%
Pipeline and Power Generation Trusts	15%
Oil and Gas Royalty Trusts	12%
High Yield Debt	9%
Cash	1%

TOP FIVE HOLDINGS

as at December 31, 2002

1. Finlay Enterprises, Inc.
2. Superior Propane Income Fund
3. RioCan Real Estate Investment Trust
4. Pembina Pipeline Income Fund
5. Summit Real Estate Investment Trust

to achieve a more attractive balance between risk and reward. This strategy seeks to provide a positive mix of high, stable current income, significant tax deferral and capital appreciation potential.

MANAGEMENT AND ADVISORY SERVICES

Middlefield Group actively manages the Fund by providing administrative, investment advisory and portfolio management services. Middlefield's investment committee, chaired by W. Garth Jestley, CFA, possesses specialized investment expertise in the natural resource and real estate sectors, small capitalization companies and credit assessment.

Management is responsible for the existence of appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable. The board of directors has an oversight role to ensure the integrity of the reported information.

SECTOR ANALYSIS

Business Trusts 43.4%

The Fund increased its exposure to the growing business trust sector to 43% from 8% at the end of the previous year. During 2002, the business trust sector grew to over 50 names and $14 billion in market capitalization. As the economy improves, there should be opportunities for these trusts to increase revenues and distributable income. Business trusts provide increased diversification and long-term growth potential as several business trusts continue to consolidate fragmented industries or have unused capacity to increase market share. During the year, MINT established core positions in trusts with business models targeting the consumer and industrial markets and with non-cyclical or contractual revenue streams. Food processing, private label manufacturing, telecom services, distribution centers, commercial staples and waste removal represent a few of the industries in which MINT participates. Three issuers in MINT's portfolio with these attributes are Associated Brands Income Fund, Bell Nordiq Income Fund and The Consumers' Waterheater Income Fund. Associated Brands is a North American leader in the private-label dry-mix food product category. It supplies 43 of the top 50 North American retailers and has strong customer relationships. Associated Brands' management is focused on increasing market share in the U.S. through leveraging its existing product lines and excess manufacturing capacity. Bell Nordiq is rated SR-2 by S&P and owns a 37% interest in Northern Telephone L.P. and Télébec L.P., which are major market-leading telecom service providers in Northern Ontario and Quebec. Bell Canada currently retains the other 63% interest in these partnerships, which enjoy a 100% market share in local service and dominant market share in long distance, wireless and internet segments. Bell Nordiq is well-positioned for continued growth as the benefits of bundling promotions and the migration to digital wireless are realized. Consumers' Waterheater owns a portfolio of residential natural-gas fired water heaters in Ontario. Its leading market position within its primary target regions, growing customer base, long-life, low-risk asset base and track record of highly stable cash flows with consistent growth underpin the stability of its distributions.

Real Estate Investment Trusts 20.3%

Real estate proved to be a safe haven for investors in 2002. During the year, REITs continued to perform well as a result of low interest rates and the underlying stability of their longer-term, lease-based income streams. Canadian REITs posted a 7.6% total return during 2002 as measured by the S&P Canadian REIT Index, which compared favourably to the negative 12.3% total return provided by the S&P/TSX Composite Index. MINT's REIT weighting was reduced from 37% at the end of 2001 to 20% at December 31, 2002. More specifically, MINT reduced its exposure to the REITs focused on the residential sector, as recent industry data suggest weakening fundamentals due to increasing real estate condominium affordability and ownership in the Greater Toronto Area, which draws demand away from the rental market.

Pipeline and Power Generation Trusts 14.5%

MINT's exposure to the pipeline and power generation sector remained constant at 15% from the end of 2001. During the year, Great Lakes Hydro Income Fund was added to the portfolio. Great Lakes has interests in 21 hydroelectric power stations in Quebec, Ontario, British Columbia, Maine and New Hampshire. Great Lakes has become the largest power income trust due to a steady progression of acquisitions. It benefits from the support of Brascan Power, which owns 50% of the trust. In particular, Brascan Power enhances the stability of the trust's cash flow by providing price or credit guarantees, which mitigate the effects of market price volatility for electricity produced and sold by the trust.

Oil and Gas Royalty Trusts 12.1%

MINT added to its weightings in royalty trusts, increasing its exposure from 7% at year-end 2001 to 12% at year-end 2002. As a result, MINT benefited from the increased distributions and higher market values in this asset class as oil and gas prices strengthened in the latter part of 2002. Higher gas prices are expected to continue in 2003. As the number of acquisition candidates in the junior and intermediate exploration and production sector decreases, replacing reserves may become more difficult. As a result, smaller royalty trusts may become acquisition targets.

High Yield Debt 9.0%

MINT reduced its weighting in high yield debt from 30% at the end of 2001 to 9% as of December 31, 2002 by rotating out of lower yielding names and into higher yielding more stable income trusts. The Fund's weighting in the sector was reduced through bond maturities, issuer redemptions and the disposition of under-performing issuers.

OPERATIONS

Income and Expenses

Net investment income increased to $0.74 per unit during 2002, an 8.8% increase from $0.68 per unit in 2001. The substantial increase in investment income was primarily due to the rotation out of lower yielding REITs and high yield debt into business trusts. Actual distributions for 2002 were $0.72 per unit of which $0.40 per unit or 56% was taxable to unitholders with the balance distributed on a tax-deferred basis. Quarterly distributions for 2003 are anticipated to continue at $0.18 per unit, which equates to 10% per annum based on a market price of $7.25 per unit.

The lower interest rates in 2002 compared to the prior year resulted in lower interest expense and bank charges, which amounted to $0.4 million in 2002, compared to $0.7 million in 2001. The ratio of management fees and other operating expenses (excluding interest and bank charges) to average net asset value ("MER") was 1.41% for the period, decreasing from 1.58% in 2001.

Balance Sheet

The net asset value per unit increased to $7.34 at December 31, 2002 from $7.25 at year end 2001 mainly due to strength in the business trust component of MINT's portfolio. The Fund's total return for the year ended December 31, 2002 was 11.6%, thereby outperforming the S&P/TSX Composite for the third consecutive year. MINT's market price was $7.25 per unit at the close of trading on December 31, 2002, appreciating from $7.05 at December 31, 2001. A $1.2 million unrealized gain has been reflected in the Fund's investment portfolio at year end.

BUSINESS RISK ASSESSMENT

There are a number of risks associated with the investment business. The following outlines some of the principal risks.

Market Risk

Market risk is the exposure to capital market price changes which have a direct effect on the net asset value of the Fund. Active management of the securities held in the investment portfolio by Middlefield's investment committee may reduce the volatility of market price fluctuations.

Income Risk

Income risk arises from a number of factors related to the operating performance of the issuers of the securities held in the portfolio. These include, for example, commodity prices, interest rates and competition. These may adversely affect the issuer's income and thereby reduce the amount of dividends, interest and other income distributions they make to their securityholders. Diversification and active management by Middlefield to maximize income mitigates exposure to this risk.

Tax Authorities and Securities Regulators

Changing legislation can reduce the tax advantages of certain investment vehicles. Increased regulation can also have a negative impact on expense control programs. Middlefield constantly monitors legislative and regulatory proposals in order to anticipate the effects on its investment portfolios.

OUTLOOK

In 2003, we expect the healthy market conditions in the income trust sector that prevailed in 2002 to continue. Although the Bank of Canada will likely return to a tightening mode over the next 12 to 18 months to keep inflation in check, the extent to which interest rates rise is expected to be moderate, reflecting the uncertainty with respect to both the sustainability of the economic recovery in the U.S. and geopolitical tensions. In the near term, the prospect for a continuing correction in the price of oil appears likely, precipitated by production in Venezuela returning to normal levels and a resolution to the conflict in Iraq over the next several months. Notwithstanding these developments, the diminished supply of natural gas and the discipline displayed by OPEC in controlling crude oil production should keep oil and gas prices at levels which will support current distribution targets for royalty trusts. Generally, we expect the IPO pipeline of income trusts to remain relatively strong, and will only participate in those that meet our investment criteria.

We anticipate investors will continue to demand income producing investments as a part of an overall portfolio strategy. Historically, income trusts have been purchased primarily by individual investors or funds purchased by individual investors. More recently, we have seen increasing levels of participation by influential institutional investors, particularly pension funds, which will provide further liquidity to this asset class.

ADDITIONAL INFORMATION

Unitholders of MINT can acquire additional units by participating in the Automatic Distribution Reinvestment Plan (the "Plan"). The Plan enables unitholders to reinvest their quarterly distributions in additional units of MINT thereby achieving the benefit of compounding returns. Please contact our Toronto office to obtain a copy of the Plan.

Units of MINT trade on the Toronto Stock Exchange under the symbol MID.UN.

AUDITORS' REPORT

To the Unitholders of MINT *Income Fund*

We have audited the statements of net assets and investment portfolio of MINT *Income Fund* (the "Trust") as at December 31, 2002 and the statements of operations, changes in net assets, net realized loss from investment transactions and financial highlights for the year then ended. These financial statements are the responsibility of the Manager of the Trust. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2002 and its results of operations, changes in net assets, net realized loss from investment transactions and financial highlights for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2001 and for the year then ended (except for the statement of financial highlights) were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 7, 2002.

Deloitte & Touche LLP

TORONTO, ONTARIO
March 14, 2003

DELOITTE & TOUCHE LLP
Chartered Accountants

STATEMENTS OF NET ASSETS

As at December 31	2002	2001
Assets:		
Investments at Market Value	$ 45,915,534	$ 49,987,061
Income and Interest Receivable	600,671	605,150
Cash	336,526	829,415
	46,852,731	51,421,626
Liabilities:		
Loan Payable (Note 4)	10,893,362	12,602,465
Unitholder Distributions Payable	856,986	938,494
Accounts Payable and Accrued Liabilities	178,344	197,104
	11,928,692	13,738,063
Net Assets	$ 34,924,039	$ 37,683,563
Units Issued and Outstanding (Note 6)	4,761,033	5,200,754

The accompanying notes to financial statements are an integral part of these financial statements.

Approved by the Board of Directors of MINT Management Limited, as Manager:

Director: W. Garth Jestley

Director: Sylvia V. Stinson

STATEMENTS OF FINANCIAL HIGHLIGHTS

For the five years ended December 31	2002 audited	2001 unaudited	2000 unaudited	1999 unaudited	1998 unaudited
Data Per Unit (Note 3)					
Net Asset Value at Beginning of Year	$ 7.25	$ 6.32	$ 6.27	$ 6.93	$ 9.59
Income (Loss) from Investment Operations:					
Net Investment Income	0.74	0.68	0.63	0.78	0.84
Net Realized and Unrealized Gain (Loss) on Investments	0.07	0.95	0.10	(0.64)	(2.62)
	0.81	1.63	0.73	0.14	(1.78)
Distributions to Unitholders	0.72	0.70	0.68	0.80	0.88
Net Asset Value at End of Year	$ 7.34	$ 7.25	$ 6.32	$ 6.27	$ 6.93
Ratios/Supplemental Data (Note 3)					
Total Assets at End of Year	$ 46,852,731	$ 51,421,626	$ 50,648,740	$ 59,643,288	$ 70,742,156
Total Net Assets at End of Year	$ 34,924,039	$ 37,683,563	$ 37,581,348	$ 43,497,793	$ 51,314,891
Weighted Average Net Assets	$ 36,671,827	$ 37,573,909	$ 38,641,785	$ 50,508,448	$ 73,152,683
Management Expense Ratio	1.41%	1.58%	1.75%	1.42%	1.35%
Portfolio Turnover Rate	74.95%	46.15%	39.60%	16.62%	65.18%
Annual Rate of Return	11.62%	26.98%	13.66%	2.68%	(18.89)%

STATEMENTS OF OPERATIONS

For the years ended December 31	2002	2001
Investment Income:		
Income from Investments	$ 3,329,040	$ 3,412,496
Interest	1,309,357	1,593,485
	4,638,397	5,005,981
Expenses (Note 5):		
Interest and Bank Charges	442,707	684,836
Management Fee	389,830	401,034
General and Administrative	125,991	194,009
	958,528	1,279,879
Net Investment Income	3,679,869	3,726,102
Net Realized and Unrealized Gain (Loss) on Investments:		
Net Realized Loss from Investment Transactions	(970,518)	(650,753)
Change in Net Unrealized Gain on Investments	1,244,973	5,578,958
Net Gain on Investments	274,455	4,928,205
Net Increase in Net Assets Resulting from Operations	$ 3,954,324	$ 8,654,307

STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31	2002	2001
Net Assets at Beginning of Year	$ 37,683,563	$ 37,581,348
Operations:		
Net Increase in Net Assets Resulting from Operations	3,954,324	8,654,307
Distributions to Unitholders	(3,536,219)	(3,764,591)
Unitholder Transactions:		
Repurchase of Units	(3,177,629)	(4,787,501)
Net (Decrease) Increase in Net Assets	(2,759,524)	102,215
Net Assets at End of Year	$ 34,924,039	$ 37,683,563

The accompanying notes to financial statements are an integral part of these financial statements.

STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2002 Description	No. of Units or Face Value		Cost		Market Value
Advanced Fiber Technologies Income Fund	100,000	$	1,029,590	$	1,035,000
Associated Brands Income Fund	100,000		1,052,304		1,080,000
Atlas Cold Storage Income Trust	120,000		1,200,000		1,350,000
Bell Nordiq Income Fund	75,000		766,500		806,250
BFI Canada Income Fund	85,000		931,502		1,007,250
CCS Income Trust	50,000		869,000		840,000
Chemtrade Logistics Income Fund	70,000		1,035,300		980,000
Clearwater Seafoods Income Fund	90,000		925,765		931,050
Davis + Henderson Income Fund	80,000		882,293		1,028,800
Halterm Income Fund	100,000		863,000		880,000
Heating Oil Partners Income Fund	100,000		1,165,000		1,183,000
KCP Income Fund	75,000		750,000		851,250
Livingston International Income Fund	90,000		1,013,047		1,023,300
Menu Foods Income Fund	50,000		546,687		685,000
Noranda Income Fund	100,000		987,750		985,000
Rogers Sugar Income Fund	160,000		764,800		752,000
Sun Gro Horticulture Income Fund	75,000		785,868		783,750
Superior Propane Income Fund	70,000		1,037,933		1,377,600
The Consumers' Waterheater Income Fund	100,000		1,001,847		1,051,000
Versacold Income Fund	90,000		772,874		724,500
Westshore Terminals Income Fund	150,000		757,500		732,000
BUSINESS TRUSTS: 43.4%			19,138,560		20,086,750
Canadian Apartment Properties Real Estate Investment Trust	40,000		524,946		518,000
Canadian Real Estate Investment Trust	80,000		960,000		1,050,400
Cominar Real Estate Investment Trust	30,000		369,570		362,100
H&R Real Estate Investment Trust	90,000		972,328		1,201,500
IPC US Income Commercial Real Estate Investment Trust	90,000		900,000		882,000
Morguard Real Estate Investment Trust	115,000		1,150,000		977,500
Retirement Residences Real Estate Investment Trust	55,000		716,708		646,800
RioCan Real Estate Investment Trust	110,000		1,067,000		1,371,700
Summit Real Estate Investment Trust	90,000		1,073,441		1,361,700
TGS North American Real Estate Investment Trust	100,000		1,000,000		1,005,000
REAL ESTATE INVESTMENT TRUSTS: 20.3%			8,733,993		9,376,700
Algonquin Power Income Fund	100,000		997,188		928,000
Boralex Power Income Fund	75,000		781,702		768,750
Great Lakes Hydro Income Fund	55,000		826,796		837,650
Inter Pipeline Fund	175,000		1,659,583		1,076,250
Northland Power Income Fund	100,000		1,000,000		1,100,000
Pembina Pipeline Income Fund	125,000		1,312,917		1,362,500
TransCanada Power L.P.	20,000		639,092		618,000
PIPELINE AND POWER GENERATION TRUSTS: 14.5%			7,217,278		6,691,150
Advantage Energy Income Fund	80,000		957,715		1,040,000
ARC Energy Trust	75,000		943,849		892,500
Canadian Oil Sands Trust	20,000		748,085		761,000
Focus Energy Trust	100,000		1,020,900		1,015,000
NAL Oil & Gas Trust	70,000		637,000		630,000
Pengrowth Energy Trust	50,000		700,030		736,500
Provident Energy Trust	50,000		524,225		537,500
OIL AND GAS ROYALTY TRUSTS: 12.1%			5,531,804		5,612,500
Air Canada Inc. 9% due June 1, 2006	300,000		287,182		240,000
Anchor Lamina Inc. 9.875% due February 1, 2008	1,500,000		2,157,202		852,120
Finlay Enterprises, Inc. 9% due May 1, 2008	1,500,000		2,164,680		2,130,300
Scott Paper Limited 10% due June 6, 2007	632,034		618,045		625,714
Tembec Inc. 8.3% due January 30, 2003	300,000		297,750		300,300
HIGH YIELD DEBT: 9.0%			5,524,859		4,148,434
CASH: 0.7%			336,526		336,526
Total Investment Portfolio, including Cash		$	46,483,020	$	46,252,060

The accompanying notes to financial statements are an integral part of this financial statement.

STATEMENTS OF NET REALIZED LOSS FROM INVESTMENT TRANSACTIONS

For the years ended December 31	2002	2001
Proceeds from Sale of Investments	$ 39,836,362	$ 25,190,508
Less: Cost of Investments Sold:		
Owned at Beginning of Year	51,462,994	55,084,933
Purchased During Year	35,490,380	22,219,322
Owned at End of Year	(46,146,494)	(51,462,994)
	40,806,880	25,841,261
Net Realized Loss from Investment Transactions	$ (970,518)	$ (650,753)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

1. MINT *Income Fund*

MINT *Income Fund* (formerly Middlefield High Income Trust) (the "Fund") is a closed-end investment trust established under the laws of the Province of Ontario on February 28, 1997. The investment objective of the Fund is to produce a high level of sustainable income and to minimize the risk of investing in high income securities on a cost effective basis. MINT Management Limited (the "Manager") is the manager and Middlefield Securities Limited (the "Advisor") is the advisor to the Fund.

2. Summary of Significant Accounting Policies

a. Valuation of Investments

Securities listed on a public stock exchange are valued at their closing sale price on the valuation date. Securities not traded on that date are valued at the average of the closing recorded bid and ask prices. Short-term investments are recorded at cost.

b. Investment Transactions and Income Recognition

Investment transactions are accounted for as of the trade date and any realized gains or losses from such transactions are calculated on an average cost basis. Income from investments is recognized on the ex-dividend or ex-distribution date, and interest income on the accrual basis.

c. Income Taxes

The Fund qualifies as a unit trust under the provisions of the *Income Tax Act* (Canada). Under the terms of the trust agreement, any taxable income of the Fund is distributable quarterly to unitholders of record date. The Fund is not subject to tax on the income distributed to unitholders. Accordingly, no provision for income taxes is required.

d. Foreign Currency Translation

Foreign currency amounts are translated into Canadian dollars as follows: market value of investments, forward currency contracts and other assets and liabilities, at the closing rate of exchange on each business day; income and expenses, and purchases, sales and settlements of investments, at the rate of exchange prevailing on the respective dates of such transactions.

e. Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

3. Statements of Financial Highlights

The information disclosed in these statements is calculated as follows:

a. Net asset value per unit is calculated at the end of each day on which the Toronto Stock Exchange is open for trading by dividing the net assets of the Fund by its outstanding units.
b. Net investment income per unit is calculated based on the average number of units outstanding during the period.
c. The management expense ratio which is the ratio of expenses to average net assets is based on annualized expenses for the stated period, excluding interest and bank charges.
d. Portfolio turnover rate is calculated based on the lesser of purchases or sales of investments divided by the average market value of the portfolio excluding short-term investments.
e. Annual rate of return represents the historical total return of an investment for the year, assuming reinvestment of all distributions.

4. Loan Payable

The revolving operating credit facility is for $15 million and is secured by a general security agreement. The facility matured on January 16, 2003 and was renewed with a maturity of January 15, 2004. At December 31, 2002, loans outstanding included bankers' acceptances with a face value of $11 million (2001 – $12.65 million).

5. Management Fee and Operating Expenses

The Manager and the Advisor provide investment management and administrative services to the Fund. In consideration for such services the Manager receives a management fee equal to 1% per annum of the net asset value, calculated and paid monthly in arrears based on the net asset value at the end of the preceding month. The Manager is reimbursed for reasonable costs related to maintaining the Fund and preparation and distribution of financial statements and other documents sent to unitholders. The Fund is responsible for the payment of all expenses relating to the operation of the Fund and the carrying on of its business.

6. Unitholders' Equity

The Fund issued 9.8 million units at $10.00 per unit. During 2002, the Fund purchased 439,700 units (2001 – 601,900) pursuant to a normal course issuer bid and no units (2001 – 147,900) in the market in accordance with the trust agreement.

7. Distributions

Commencing with the quarter ended June 30, 1997 and on a quarterly basis thereafter, each unitholder is entitled to receive their pro rata share of cash distributions. In 2002, distributions amounted to $0.72 per unit (2001 – $0.70). Distributions of the Fund, at the discretion of the unitholder, are reinvested in additional units of the Fund, under the Distribution Reinvestment Plan (the "Plan") without sales charge. During 2002, 9,382 units (2001 – 11,388) were purchased under the Plan.

8. Reclassifications

Certain prior year balances have been reclassified to conform with the current year presentation.

PATHFINDER
INCOME FUND

PATHFINDER commenced operations on October 11, 2002, raising $155 million in its initial public offering. The Fund paid its first distribution on January 15, 2003 to unitholders of record on December 31, 2002. On an annualized basis, the current per unit distribution rate of $0.075 per month represents a cash-on-cash yield of 9.0% based on the issue price of $10.00 per unit.

MANAGEMENT'S DISCUSSION AND ANALYSIS

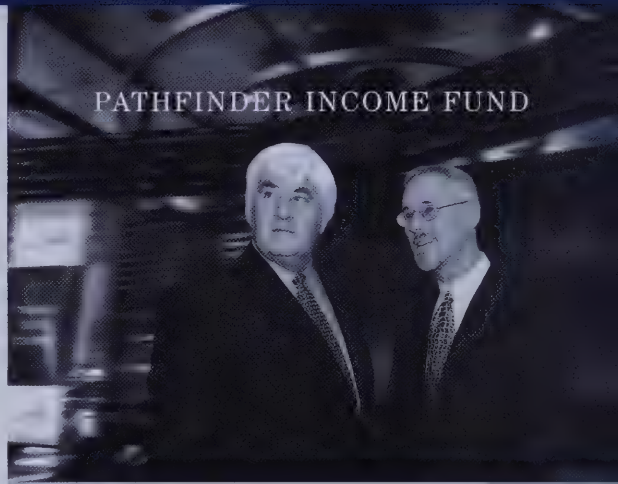
INVESTMENT OBJECTIVES AND STRATEGY

The objectives of PATHFINDER are to provide unitholders with a stable monthly income stream of 9% per annum and to return the original issue price of the units to unitholders upon termination of the Fund in December 2012. A portion of the distributions is expected to be tax-deferred, providing unitholders with an attractive after-tax yield. The Fund combines the investment management experience of both Middlefield and Guardian Capital Inc., who act as co-advisors to the Fund, responsible for asset mix and security selection.

PATHFINDER intends to achieve its objectives through careful security selection with a bias towards those issuers with low capital expenditure requirements, stable cash flows and dominant market positions. The Fund is employing a balanced investment strategy among REITs, business trusts, royalty trusts and pipeline and power generation trusts. In accordance with the Fund's investment restrictions, none of the foregoing asset classes will represent less than 10% nor more than 40% of the value of the portfolio. This strategy provides a favourable balance of stable current income, significant tax deferral and potential for capital appreciation.

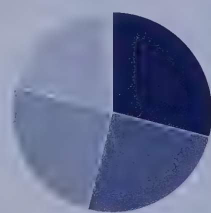
MANAGEMENT AND ADVISORY SERVICES

Guardian Capital Inc. ("GCI") and Middlefield Securities Limited ("MSL") are the co-advisors (the "Co-Advisors") to the Fund's investment portfolio. GCI currently manages approximately $9.5 billion in client assets and provides both domestic and global investment management services to the institutional market. It has one of the broadest product ranges among Canadian institutional investment managers spanning equity, fixed income and balanced investment mandates. GCI manages segregated portfolios, pooled funds and



PORTFOLIO SUMMARY

as at December 31, 2002



Business Trusts	29%
REITs	25%
Oil and Gas Royalty Trusts	25%
Pipeline and Power Generation Trusts	20%
Cash	1%

TOP FIVE HOLDINGS

as at December 31, 2002

1. RioCan Real Estate Investment Trust
2. Great Lakes Hydro Income Fund
3. Viking Energy Royalty Trust
4. Advantage Energy Income Fund
5. Summit Real Estate Investment Trust

income funds. MSL and its affiliates provide a variety of financial services including investment management, corporate finance, merchant banking, mergers and acquisitions, advisory and security placement services. The Co-Advisors have established an investment committee comprised of nominees of each Co-Advisor to review and approve all investment recommendations.

Management is responsible for the existence of appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable. The board of directors and audit committee have an oversight role to ensure the integrity of the reported information.

SECTOR ANALYSIS

Business Trusts 28.4%

PATHFINDER has assembled a diversified portfolio of business trusts including core positions in businesses in mature industries with low capital expenditure requirements, stable cash flows and dominant market positions. Among those business trusts included in the Fund's portfolio are Heating Oil Partners Income Fund, Menu Foods Income Fund and The Consumers' Waterheater Income Fund. Since its inception, Heating Oil Partners has been a consolidator in the highly fragmented heating oil distribution industry and is estimated to be the second largest operator in the U.S. Menu Foods is the leading manufacturer of private-label wet pet food in North America. The company has a broad customer base and has established long-term relationships with high quality retailers. The trend towards higher penetration of private-label in the U.S. is expected to fuel Menu's growth over the next several years. Consumers' Waterheater owns a portfolio of residential natural gas fired water heaters in Ontario. Its leading market position within its primary target regions, growing customer base, long-life, low-risk asset base and track record of highly stable cash flows with consistent growth underpin the stability of its distributions.

Real Estate Investment Trusts 25.3%

PATHFINDER made selective investments in various Canadian REITs. Since the mid-1990s, REITs have delivered strong returns through various market cycles, outperforming the S&P/TSX in six of the past eight years. The Canadian REIT market continues to be supported by reasonable valuations, stable net asset values, low interest rates and a transparent business model. Notwithstanding, apartment REITs are currently experiencing some weakness. Competition from low interest rate-financed home ownership and the corresponding increased supply of condominiums in the GTA has drawn demand away from the rental market. In light of these developments, the Fund has adopted an underweight position in the residential sector.

Oil and Gas Royalty Trusts 25.2%

Royalty trusts have emerged over the past several years as the preferred model to exploit proven reserves in the Western Canadian sedimentary basin. Continuing strong commodity prices are expected to produce solid returns for investors. The main issues affecting oil prices are the war with Iraq and tightening crude oil supplies, compounded in December by a labour strike in Venezuela that effectively shut down oil production. Natural gas prices have increased significantly due to widespread concerns over declining North American gas supply. PATHFINDER focuses in particular on those royalty trusts having strong management and longer reserve lives. Two key positions within PATHFINDER's portfolio are ARC Energy Trust and Enerplus Resources Fund. Both royalty trusts have large market capitalizations, long reserve life indices, and strong management teams with a track record of creating value for investors.

Pipeline and Power Generation Trusts 20.3%

Pipeline and power generation trusts are characterized by very stable revenue streams and exhibit a strong correlation with movements in interest rates. As evidence of a sustained economic recovery builds, we expect the Bank of Canada will raise interest rates to keep inflation within its target range of 1% to 3%. As a result, PATHFINDER has trimmed its position in this asset class. Nonetheless, pipeline and power generation trusts remain an integral part of PATHFINDER's portfolio and provide investors with very stable cash distributions. Pipeline trusts typically have dominant market positions and are less commodity price sensitive than royalty trusts. Power generation trusts produce stable cash flows from long life assets and benefit from long-term, fixed price contracts.

OPERATIONS

Income and Expenses

PATHFINDER commenced operations on October 11, 2002. As a result, there is no comparative prior period. The total investment income from October 11, 2002 to December 31, 2002 amounted to $4.2 million, most of which was derived from the Fund's investment in income trusts. Net investment income for the period amounted to $3.5 million or $0.23 per unit. From commencement of operations to December 31, 2002, the net loss on the Fund's investments totaled $1.6 million or $0.11 per unit.

Management fees for the period ended December 31, 2002 amounted to $0.4 million and interest and bank charges amounted to $0.1 million for the same period. The ratio of management fees and other operating expenses (excluding interest and bank charges) to average net asset value ("MER") was 1.88%.

Balance Sheet

At year-end, the Fund's net asset value ("NAV") per unit was $9.44 compared to $9.40 at commencement of operations on October 11, 2002. The growth in the Fund's NAV per unit is primarily due to the excess of earnings over distributions to unitholders.

BUSINESS RISK ASSESSMENT

There are a number of risks associated with the investment business. The following outlines some of the principal risks.

Market Risk

Market risk is the exposure to capital market price changes which have a direct effect on the net asset value of the Fund. Active management of the securities held in the investment portfolio by the Co-Advisor's investment committee may reduce the volatility of market price fluctuations.

Income Risk

Income risk arises from a number of factors related to the operating performance of the issuers of the securities held in the portfolio. These include, for example, commodity prices, interest rates and competition. These may adversely affect the issuer's income and thereby reduce the amount of dividends, interest and other income distributions they make to their securityholders. Diversification and active management by the Co-Advisors to maximize income mitigates exposure to this risk.

Tax Authorities and Securities Regulators

Changing legislation can reduce the tax advantages of certain investment vehicles. Increased regulation can also have a negative impact on expense control programs. Middlefield constantly monitors legislative and regulatory proposals so as to anticipate the effects on its investment portfolios.

OUTLOOK

In 2003, we expect the healthy market conditions in the income trust sector that prevailed in 2002 to continue. Although the Bank of Canada will likely return to a tightening mode over the next 12 to 18 months to keep inflation in check, the extent to which interest rates rise is expected to be moderate, reflecting the uncertainty with respect to both the sustainability of the economic recovery in the U.S. and geopolitical tensions. In the near term, the prospect for a continuing correction in the price of oil appears likely, precipitated by production in Venezuela returning to normal levels and a resolution to the conflict in Iraq over the next several months. Notwithstanding these developments, the diminished supply of natural gas and the discipline displayed by OPEC in controlling crude oil production should keep oil and gas prices at levels which will support current distribution targets for royalty trusts. Generally, we expect the IPO pipeline of income trusts to remain relatively strong, and will only participate in those that meet our investment criteria.

We anticipate investors will continue to demand income producing investments as a part of an overall portfolio strategy. Historically, income trusts have been purchased primarily by individual investors or by funds purchased by individual investors. More recently, we have seen increasing levels of participation by influential institutional investors, particularly pension funds, which will provide further liquidity to this asset class.

We expect that PATHFINDER will continue to distribute $0.075 per unit on a monthly basis throughout the course of 2003, representing a yield of 9% on an annualized basis on the offering price of $10.00 per unit.

ADDITIONAL INFORMATION

Unitholders of PATHFINDER can acquire additional units by participating in the Automatic Distribution Reinvestment Plan (the "Plan"). The Plan enables unitholders to reinvest their monthly distributions in additional units of PATHFINDER thereby achieving the benefit of compounding returns. The Plan also allows participants to purchase additional units for cash. The optional cash purchases require a minimum of $100 per payment. Please contact our Toronto office to obtain a copy of the Plan.

Units of PATHFINDER trade on the Toronto Stock Exchange under the symbol PAZ.UN.

AUDITORS' REPORT

To the Unitholders of PATHFINDER *Income Fund*

We have audited the statements of net assets and investment portfolio of PATHFINDER *Income Fund* (the "Trust") as at December 31, 2002 and the statements of operations, changes in net assets, net realized loss from investment transactions and financial highlights for the period October 11, 2002 (date of commencement of operations) to December 31, 2002. These financial statements are the responsibility of the Manager of the Trust. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2002 and its results of operations, changes in net assets, net realized loss from investment transactions and financial highlights for the period then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

TORONTO, ONTARIO
March 14, 2003

DELOITTE & TOUCHE LLP
Chartered Accountants

STATEMENT OF NET ASSETS

As at December 31, 2002	
Assets:	
Investments at Market Value	$ 175,818,500
Cash	1,420,357
Income and Interest Receivable	1,845,505
	179,084,362
Liabilities:	
Loan Payable (Note 5)	33,676,209
Unitholder Distributions Payable	1,143,360
Accounts Payable and Accrued Liabilities	505,950
	35,325,519
Net Assets	$ 143,758,843
Units Issued and Outstanding (Note 7)	15,232,800

The accompanying notes to financial statements are an integral part of this financial statement.

Approved by the Board of Directors of Middlefield PATHFINDER Management Limited, as Manager:

Director: W. Garth Jestley

Director: Murray J. Brasseur

STATEMENT OF FINANCIAL HIGHLIGHTS

For the period October 11, 2002 (date of commencement of operations) to December 31, 2002

Data Per Unit (Note 4)	
Net Asset Value at Beginning of Period	$ 9.40
Income from Investment Operations:	
Net Investment Income	0.23
Net Realized and Unrealized Loss on Investments	(0.11)
	0.12
Distributions to Unitholders	0.08
Net Asset Value at End of Period	$ 9.44
Ratios/Supplemental Data (Note 4)	
Total Assets at End of Period	$ 179,084,362
Total Net Assets at End of Period	$ 143,758,843
Weighted Average Net Assets	$ 140,403,206
Management Expense Ratio	1.88%
Portfolio Turnover Rate	1.03%
Annual Rate of Return	N/A

STATEMENT OF OPERATIONS

For the period October 11, 2002 (date of commencement of operations) to December 31, 2002

Investment Income:	
Income from Investments	$ 4,075,760
Interest	138,300
	4,214,060
Expenses (Note 6):	
Management Fee	371,510
Service Fee to Investment Dealers	129,179
Interest and Bank Charges	122,898
General and Administrative	134,876
	758,463
Net Investment Income	3,455,597
Net Realized and Unrealized Loss on Investments:	
Net Realized Loss from Investment Transactions	(9,409)
Net Unrealized Loss on Investments	(1,587,835)
Net Loss on Investments	(1,597,244)
Net Increase in Net Assets Resulting from Operations	$ 1,858,353

STATEMENT OF CHANGES IN NET ASSETS

For the period October 11, 2002 (date of commencement of operations) to December 31, 2002

Net Assets at Beginning of Period	$ –
Operations:	
Net Increase in Net Assets Resulting from Operations	1,858,353
Distributions to Unitholders	(1,143,360)
Unitholder Transactions:	
Proceeds from Issue of Trust Units, Net	145,682,877
Repurchase of Trust Units	(2,639,027)
	143,043,850
Net Increase in Net Assets	143,758,843
Net Assets at End of Period	$ 143,758,843

The accompanying notes to financial statements are an integral part of these financial statements.

STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2002

Description	No. of Units	Cost	Market Value
Advanced Fiber Technologies Income Fund	355,000	$ 3,698,139	$ 3,674,250
Associated Brands Income Fund	175,000	1,773,800	1,890,000
Atlas Cold Storage Income Trust	175,000	2,018,857	1,968,750
BFI Canada Income Fund	275,000	3,150,671	3,258,750
Chemtrade Logistics Income Fund	265,000	3,890,789	3,710,000
Clearwater Seafoods Income Fund	170,000	1,765,450	1,758,650
Davis + Henderson Income Fund	220,000	2,605,295	2,829,200
Halterm Income Fund	200,000	1,721,000	1,760,000
Heating Oil Partners Income Fund	300,000	3,675,608	3,549,000
IAT Air Cargo Facilities Income Fund	165,000	1,778,855	1,661,550
KCP Income Fund	225,000	2,633,217	2,553,750
Livingston International Income Fund	160,000	1,830,623	1,819,200
Menu Foods Income Fund	130,000	1,812,200	1,781,000
Noranda Income Fund	190,000	1,877,865	1,871,500
Rogers Sugar Income Fund	375,000	1,792,500	1,762,500
Sun Gro Horticulture Income Fund	170,000	1,858,354	1,776,500
Superior Propane Income Fund	245,000	4,836,085	4,821,600
The Consumers' Waterheater Income Fund	265,000	2,650,000	2,785,150
Versacold Income Fund	220,000	1,828,200	1,771,000
Westshore Terminals Income Fund	700,000	3,560,319	3,416,000
BUSINESS TRUSTS: 28.4%		50,757,827	50,418,350
Alexis Nihon Real Estate Investment Trust	175,000	1,750,000	1,741,250
Canadian Apartment Properties Real Estate Investment Trust	140,000	1,833,305	1,813,000
Canadian Hotel Income Properties Real Estate Investment Trust	260,000	2,454,214	2,340,000
Canadian Real Estate Investment Trust	365,000	4,732,058	4,792,450
Cominar Real Estate Investment Trust	350,000	4,093,031	4,224,500
H&R Real Estate Investment Trust	260,000	3,602,263	3,471,000
Morguard Real Estate Investment Trust	315,000	2,689,542	2,677,500
O&Y Real Estate Investment Trust	350,000	3,612,750	3,517,500
Residential Equities Real Estate Investment Trust	250,000	3,496,149	3,372,500
Retirement Residences Real Estate Investment Trust	215,000	2,662,000	2,528,400
RioCan Real Estate Investment Trust	450,000	5,456,830	5,611,500
Summit Real Estate Investment Trust	350,000	5,330,990	5,295,500
TGS North American Real Estate Investment Trust	350,000	3,500,000	3,517,500
REAL ESTATE INVESTMENT TRUSTS: 25.3%		45,213,132	44,902,600
Advantage Energy Income Fund	410,000	5,476,694	5,330,000
ARC Energy Trust	435,000	5,315,900	5,176,500
Canadian Oil Sands Trust	120,000	4,278,475	4,566,000
Enerplus Resources Fund	125,000	3,543,850	3,506,250
Focus Energy Trust	365,000	3,684,975	3,704,750
Freehold Royalty Trust	200,000	2,100,000	2,176,000
NAL Oil & Gas Energy Trust	380,000	3,582,300	3,420,000
Pengrowth Energy Trust	300,000	4,269,500	4,419,000
Primewest Energy Trust	105,000	2,677,570	2,667,000
Shiningbank Energy Income Fund	75,000	1,092,480	1,136,250
Ultima Energy Trust	610,000	3,517,750	3,141,500
Viking Energy Royalty Trust	755,000	5,429,654	5,337,850
OIL AND GAS ROYALTY TRUSTS: 25.2%		44,969,148	44,581,100
Algonquin Power Income Fund	360,000	3,566,651	3,340,800
Boralex Power Income Fund	350,000	3,650,991	3,587,500
Fort Chicago Energy Partners L.P.	440,000	3,619,595	3,630,000
Great Lakes Hydro Income Fund	360,000	5,365,299	5,482,800
Inter Pipeline Fund	830,000	5,308,240	5,104,500
Northland Power Income Fund	155,000	1,697,228	1,705,000
Pembina Pipeline Income Fund	455,000	5,114,962	4,959,500
Taylor NGL Limited Partnership	335,000	1,464,575	1,520,900
TransAlta Power, L.P.	385,000	3,568,415	3,603,600
TransCanada Power, L.P.	96,500	3,110,272	2,981,850
PIPELINE AND POWER GENERATION TRUSTS: 20.3%		36,466,228	35,916,450
CASH: 0.8%		1,420,357	1,420,357
Total Investment Portfolio, including Cash		$ 178,826,692	$ 177,238,857

The accompanying notes to financial statements are an integral part of this financial statement.

STATEMENT OF NET REALIZED LOSS FROM INVESTMENT TRANSACTIONS

For the period October 11, 2002 (date of commencement of operations) to December 31, 2002

Proceeds from Sale of Investments	$ 1,255,559
Less: Cost of Investments Sold:	
Owned at Beginning of Period	–
Purchased During Period	178,671,303
Owned at End of Period	(177,406,335)
	1,264,968
Net Realized Loss from Investment Transactions	$ (9,409)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002

1. PATHFINDER *Income Fund*

PATHFINDER *Income Fund* (the "Fund") is a closed-end investment trust established under the laws of the Province of Ontario on September 25, 2002. Middlefield PATHFINDER Management Limited (the "Manager") is both the manager and trustee and Guardian Capital Inc. and Middlefield Securities Limited are the co-advisors to the Fund. The Fund was listed on the Toronto Stock Exchange and effectively commenced operations on October 11, 2002 when it first issued units through an initial public offering.

2. Investment Objectives and Strategy

The Fund's investment objectives are (i) to provide unitholders with a stable stream of monthly distributions and (ii) to return the original issue price of the units to unitholders upon termination of the Fund on December 31, 2012. The net proceeds of the initial offering together with draw-downs under the loan facility are invested in a broadly diversified portfolio of business trusts, real estate investment trusts, oil and gas royalty trusts and pipeline and power generation trusts.

3. Summary of Significant Accounting Policies

a. Valuation of Investments

Securities listed on a public stock exchange are valued at their closing sale price on the valuation date. Securities not traded on that date are valued at the average of the closing recorded bid and ask prices. Short-term investments are valued at cost.

b. Investment Transactions and Income Recognition

Securities transactions are accounted for as of the trade date and any realized gains or losses from such transactions are calculated on an average cost basis. Income from investments is recognized on the ex-dividend or ex-distribution date, and interest income on an accrual basis.

c. Income Taxes

The Fund qualifies as a mutual fund trust under the provisions of the *Income Tax Act* (Canada). Under the terms of the Declaration of Trust, any taxable income of the Fund is distributable monthly to unitholders of record date. The Fund is not subject to tax on the income distributed to unitholders. Accordingly, no provision for income taxes is required.

d. Foreign Currency Translation

Foreign currency amounts are translated into Canadian dollars as follows: market value of investments, forward currency contracts and other assets and liabilities, at the closing rate of exchange on each business day; income and expenses, and purchases, sales and settlements of investments, at the rate of exchange prevailing on the respective dates of such transactions.

e. Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

4. Statement of Financial Highlights

The information disclosed in this statement is calculated as follows:

a. Net asset value per unit is calculated at the end of each day on which the Toronto Stock Exchange is open for trading by dividing the net assets of the Fund by its outstanding units.

b. Net investment income per unit is calculated based on the average number of units outstanding during the period.

c. The management expense ratio which is the ratio of expenses to average net assets is based on annualized expenses for the stated period, excluding interest and bank charges.

d. Portfolio turnover rate is calculated based on the lesser of purchases or sales of investments divided by the average market value of the portfolio excluding short-term investments.

e. Annual rate of return represents the historical total return of an investment for the year, assuming reinvestment of all distributions. Returns are not reported in the year that the Fund was established.

5. Loan Payable

The revolving term credit facility is for $60 million and is secured by a general security agreement. The facility matures on November 4, 2003 and is subject to annual renewal. At December 31, 2002, loans outstanding included bankers' acceptances with a face value of $34 million.

6. Management Fee and Operating Expenses

The Manager provides investment and administrative services to the Fund. In consideration for such services the Manager receives a management fee equal to 1.1% per annum of the net asset value, calculated and paid monthly in arrears based on the net asset value at the end of the preceding month. The Manager is reimbursed for reasonable costs related to maintaining the Fund and preparation and distribution of financial statements and other documents sent to the unitholders. The Fund is responsible for the payment of all expenses relating to the operation of the Fund and the carrying on of its business.

7. Unitholders' Equity

The Fund is authorized to issue an unlimited number of transferable, redeemable trust units, each of which represents an equal, undivided interest in the net assets of the Fund. All units have equal rights and privileges.

On October 11, 2002, the Fund issued 14.5 million units at $10 per unit for proceeds, net of agents' fees and issue costs, of $136.3 million. On November 6, 2002, the Fund issued 1.0 million units at $10 per unit for proceeds, net of agents' fees and issue costs, of $9.4 million pursuant to the exercise of the over-allotment option. During 2002, the Fund purchased 267,200 units pursuant to a normal course issuer bid.

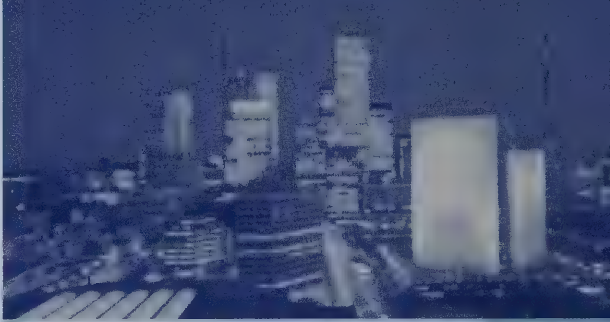
8. Distributions

Commencing with the month ended December 31, 2002 and on a monthly basis thereafter, each unitholder is entitled to receive their pro rata share of cash distributions. For the period ended December 31, 2002, distributions amounted to $0.075 per unit. Distributions of the Fund, at the discretion of the unitholder, are reinvested in additional units of the Fund, under the Distribution Reinvestment Plan (the "Plan") without sales charge. For the period ended December 31, 2002, 562 units were purchased under the Plan and were issued from treasury.

Sage

SAGE had a very successful year, meeting its objective of providing unitholders with steady quarterly cash distributions. During 2002, SAGE provided unitholders with a total return of 11.2%. On an annualized basis, the current per unit distribution rate of $0.30 per quarter represents a cash-on-cash yield of approximately 10% based on a unit market price of $12.40.

SAGE INCOME FUND



MANAGEMENT'S DISCUSSION AND ANALYSIS

INVESTMENT OBJECTIVES AND STRATEGY

The principal investment objective of SAGE *Income Fund* is to provide unitholders with a high level of sustainable income distributed quarterly over the life of the Fund while preserving invested capital. The Fund's secondary investment objective is to enhance returns by investing in securities with the potential for capital appreciation. To achieve these objectives, SAGE invests in an actively managed diversified portfolio of high yield securities across a broad range of industries primarily in Canada and the United States. The Fund's investment portfolio is comprised of income trust units and high yield debt.

An uncertain North American economic outlook together with a low interest rate environment continue to support the demand for income trusts as investors seek equity-like returns through high income producing investments. The size of the asset class measured in market capitalization currently exceeds $50 billion, representing approximately 5% of the total market capitalization of all TSX listed companies. The market capitalization of income trusts increased by over $15 billion in 2002, of which approximately $9.5 billion represented new issuance of income trust units. More recently, significant institutional investors have begun to invest in income trusts on an increasing basis due to the attractive yields and the prospect of stable distributions.

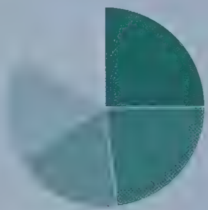
In light of the growth and increased liquidity by the income trust sector, as well as its strong performance over the last few years, SAGE increased its weighting in this sector to 73% of assets held by the Fund. Royalty trusts comprise a significant weighing in SAGE's portfolio. The royalty trust sector is supported by continued strong commodity prices which should result in higher distributions over the next twelve months.

MANAGEMENT AND ADVISORY SERVICES

Middlefield Group actively manages the Fund by providing administrative, investment advisory and portfolio management services. Middlefield's investment

PORTFOLIO SUMMARY

as at December 31, 2002



- High Yield Debt 25%
- Oil and Gas Royalty Trusts 23%
- REITs 18%
- Business Trusts 18%
- Pipeline and Power Generation Trusts 14%
- Cash 2%

TOP FIVE HOLDINGS

as at December 31, 2002

1. Finlay Enterprises, Inc.
2. ARC Energy Trust
3. Canadian Oil Sands Trust
4. Enerplus Resources Fund
5. Great Lakes Hydro Income Fund

committee, chaired by W. Garth Jestley, CFA, possesses specialized investment expertise in the natural resource and real estate sectors, small capitalization companies and credit assessment.

Management is responsible for the existence of appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable. The board of directors has an oversight role to ensure the integrity of the reported information.

SECTOR ANALYSIS

High Yield Debt 25.4%

SAGE significantly reduced its weighting in high yield debt from 48% at the end of 2001 to 25% at December 31, 2002. Various high yield debt holdings were replaced with more liquid income trust issuers which offer a more attractive balance between risk and return. SAGE reduced its weightings in lower yielding names as well as those issuers with deteriorating financial condition. The Fund added Scott Paper Limited debt to its portfolio in 2002 as the company's operating performance and balance sheet strengthened. Going forward, we intend to reduce the high yield debt weighting in the SAGE portfolio in favour of more liquid income trust issuers.

Oil and Gas Royalty Trusts 22.6%

During the year, SAGE substantially added to its holdings in the oil and gas royalty trust sector, from a 4% weighting at the end of 2001 to 23% at December 31, 2002. SAGE benefited from this asset shift as lower inventory levels and geopolitical concerns resulted in higher commodity prices in the latter part of 2002. The price of WTI crude oil closed at US$31.23 per barrel at the end of December, up 58% from the previous year. Natural gas prices also strengthened due to reduced storage levels and a relatively cold winter in the eastern U.S. and Canada. During the year, the Fund added Advantage Energy Income Fund, Ultima Energy Trust and PrimeWest Energy Trust to its portfolio. Both Advantage and PrimeWest are weighted toward natural gas and achieved total returns of 81% and 19% respectively in 2002. Ultima Energy is a small cap oil-weighted trust that generated a total return of 44% in 2002. As the number of acquisition candidates in the junior and intermediate exploration and production sector decreases, replacing reserves may become more difficult. In this context, smaller royalty trusts may become acquisition targets.

Real Estate Investment Trusts 18.0%

Once again, real estate proved to be a safe haven for investors in 2002. During the year, REITs continued to perform well as a result of low interest rates and the underlying stability of their longer-term, lease-based income streams. Canadian REITs posted a 7.6% total return during 2002 as measured by the S&P Canadian REIT Index, which compared favourably to the negative 12.3% total return generated by the S&P/TSX Composite. SAGE's REIT weighting was reduced from 28% at the end of 2001 to 18% at December 31, 2002. Although SAGE reduced its overall exposure to REITs during the year, it added names to its portfolio to achieve greater diversification. For example, SAGE reduced its exposure to REITs focused on the residential sector as recent industry data reveal that fundamentals are weakening due to increased real estate condominium affordability and ownership in the Greater Toronto Area, drawing demand away from the rental market. Summit REIT, which is focused on the industrial property sector, was added to the portfolio. Summit management is successfully executing a strategy of migrating its portfolio to the industrial sector and is currently generating a yield of approximately 10%, which is very attractive relative to its peers.

Business Trusts 17.6%

In 2002, the Fund increased its exposure to the growing business trust sector from 9% to 18% of the portfolio. Business trusts provide significant opportunity for increased diversification and long-term growth as several business trusts continue to consolidate fragmented industries or have unused capacity to increase their market share. The business trust universe has grown to over 50 issuers. Similar to royalty trusts, business trusts are expected to perform well and potentially increase distributions during times of economic growth. During the year, SAGE initiated positions in several business trusts including BFI Canada Income Fund, Davis + Henderson Income Fund and Livingston International Income Fund. BFI Canada is the second largest full service waste management business in Canada. It operates in a recession resistant industry and its customer base is diversified by geography. The expansion of an existing landfill together with continued cost rationalization and productivity improvements should drive growth in cash flow. Davis + Henderson, serving individuals and small-businesses, is the largest provider of cheque supply programs to Canadian financial institutions. Although cheque usage is declining, Davis + Henderson has managed to grow earnings through consumer migration to higher-margin products and should benefit from the upcoming expansion into the U.S. market. Livingston International is Canada's largest customs broker providing both Canadian and U.S. customs brokerage as well as trade related services to more than 13,000 accounts. Livingston has many opportunities for growth through cross-selling services to its existing client base as well as through completing accretive acquisitions throughout North America.

Pipeline and Power Generation Trusts 14.0%

Pipeline and power generation trusts represent the more conservative portion of SAGE's portfolio in terms of income stability. SAGE increased its weighting in these sectors during the year to 14% at December 31, 2002 from 5% in December 2001. SAGE has a significant position in TransCanada Power L.P., which has a consistent track record of growing distributions to unitholders since its IPO in 1997 and benefits from the support of TransCanada Pipelines Limited, which owns

36% of TransCanada Power L.P. In particular, TransCanada Pipelines provides fuel and risk management expertise as well as financial support for acquisitions.

OPERATIONS

Income and Expenses

Net investment income increased to $1.29 per unit in 2002, a 12% increase from $1.15 per unit in 2001, primarily due to the rotation out of lower yielding debt issues and into higher yielding royalty and business trusts. The actual distributions for 2002 amounted to $1.20 per unit of which $0.63 per unit or 52% was taxable to unitholders with the balance distributed on a tax-deferred basis. Quarterly distributions for 2003 are anticipated to continue at $0.30 per unit, which equates to 10% per annum based on a market price of $12.40 per unit. SAGE anticipates earning investment income in excess of the current $1.20 distribution level. At present, it is intended that any excess income will be retained by the Fund.

The lower interest rates in 2002 compared to the prior year resulted in lower interest expense and bank charges, which amounted to $0.3 million in 2002, compared to $0.4 million in 2001. Lower expenses overall in 2002 resulted in a ratio of management fees and other operating expenses (excluding interest and bank charges) to average net asset value (MER) of 1.73% which is lower than the MER of 1.89% during 2001.

Balance Sheet

The net asset value per unit increased to $12.82 at December 31, 2002 from $12.65 at December 31, 2001. SAGE's total return for the year ended December 31, 2002 was 11%, thereby significantly outperforming the S&P/TSX Composite for the second consecutive year. The trading price discount to NAV closed the year at 2.5%, creating an opportunity for investors to purchase assets below their intrinsic value.

BUSINESS RISK ASSESSMENT

There are a number of risks associated with the investment business. The following outlines some of the principal risks.

Market Risk

Market risk is the exposure to capital market price changes which have a direct effect on the net asset value of the Fund. Active management of the securities held in the investment portfolio by Middlefield's investment committee may reduce the volatility of market price fluctuations.

Income Risk

Income risk arises from a number of factors related to the operating performance of the issuers of the securities held in the portfolio. These include, for example, commodity prices, interest rates and competition. These may adversely affect the issuer's income and thereby reduce the amount of dividends, interest and other income distributions they make to their securityholders. Diversification and active management by Middlefield to maximize income mitigates exposure to this risk.

Tax Authorities and Securities Regulators

Changing legislation can reduce the tax advantages of certain investment vehicles. Increased regulation can also have a negative impact on expense control programs. Middlefield constantly monitors legislative and regulatory proposals so as to anticipate the effects on its investment portfolios.

OUTLOOK

In 2003, we expect the healthy market conditions in the income trust sector that prevailed in 2002 to continue. Although the Bank of Canada will likely return to a tightening mode over the next 12 to 18 months to keep inflation in check, the extent to which interest rates rise is expected to be moderate, reflecting the uncertainty with respect to both the sustainability of the economic recovery in the U.S. and geopolitical tensions. In the near term, the prospect for a continuing correction in the price of oil appears likely, precipitated by production in Venezuela returning to normal levels and a resolution to the conflict in Iraq over the next several months. Notwithstanding these developments, the diminished supply of natural gas and the discipline displayed by OPEC in controlling crude oil production should keep oil and gas prices at levels which will support current distribution targets for royalty trusts. Generally, we expect the IPO pipeline of income trusts to remain relatively strong, and will only participate in those that meet our investment criteria.

We anticipate investors will continue to demand income producing investments as a part of an overall portfolio strategy. Historically, income trusts have been purchased primarily by individual investors or by funds purchased by individual investors. More recently, we have seen increasing levels of participation by influential institutional investors, particularly pension funds, which will provide further liquidity to this asset class.

ADDITIONAL INFORMATION

Unitholders of SAGE can acquire additional units by participating in the Automatic Distribution Reinvestment Plan (the "Plan"). The Plan enables unitholders to reinvest their quarterly distributions in additional units of SAGE thereby achieving the benefit of compounding returns. Please contact our Toronto office to obtain a copy of the Plan.

Units of SAGE trade on the Toronto Stock Exchange under the symbol BBB.UN.

AUDITORS' REPORT

To the Unitholders of SAGE *Income Fund*

We have audited the statements of net assets and investment portfolio of SAGE *Income Fund* (the "Trust") as at December 31, 2002 and the statements of operations, changes in net assets, net realized gain (loss) from investment transactions and financial highlights for the year then ended. These financial statements are the responsibility of the Manager of the Trust. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2002 and its results of operations, changes in net assets, net realized gain (loss) from investment transactions and financial highlights for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2001 and for the year then ended (except for the statement of financial highlights) were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 7, 2002.

Deloitte & Touche LLP

TORONTO, ONTARIO
March 14, 2003

DELOITTE & TOUCHE LLP
Chartered Accountants

STATEMENTS OF NET ASSETS

As at December 31	2002	2001
Assets:		
Investments at Market Value	$ 20,384,274	$ 23,657,067
Cash	492,935	487,098
Income and Interest Receivable	290,952	308,118
	21,168,161	24,452,283
Liabilities:		
Loan Payable (Note 4)	6,797,844	8,015,726
Unitholder Distributions Payable	327,784	379,536
Accounts Payable and Accrued Liabilities	33,727	84,750
	7,159,355	8,480,012
Net Assets	$ 14,008,806	$ 15,972,271
Units Issued and Outstanding (Note 6)	1,092,615	1,263,119

The accompanying notes to financial statements are an integral part of these financial statements.

Approved by the Board of Directors of SAGE Management Limited, as Manager:

Director: W. Garth Jestley

Director: Sylvia V. Stinson

STATEMENTS OF FINANCIAL HIGHLIGHTS

For the five years ended December 31	2002 audited	2001 unaudited	2000 unaudited	1999 unaudited	1998 unaudited
Data Per Unit (Note 3)					
Net Asset Value at Beginning of Year	$ 12.65	$ 11.07	$ 11.69	$ 12.90	$ 14.20
Income (Loss) from Investment Operations:					
Net Investment Income	1.29	1.15	1.23	1.26	0.57
Net Realized and Unrealized Gain (Loss) on Investments	0.08	1.63	(0.69)	(1.35)	(1.12)
	1.37	2.78	0.54	(0.09)	(0.55)
Distributions to Unitholders	1.20	1.20	1.16	1.12	0.75
Net Asset Value at End of Year	$ 12.82	$ 12.65	$ 11.07	$ 11.69	$ 12.90
Ratios/Supplemental Data (Note 3)					
Total Assets at End of Year	$ 21,168,161	$ 24,452,283	$ 23,983,535	$ 29,924,370	$ 30,290,185
Total Net Assets at End of Year	$ 14,008,806	$ 15,972,271	$ 15,502,463	$ 19,502,553	$ 25,679,582
Weighted Average Net Assets	$ 15,388,565	$ 16,229,386	$ 16,921,490	$ 23,113,241	$ 31,079,630
Management Expense Ratio	1.73%	1.89%	1.93%	1.51%	1.62%
Portfolio Turnover Rate	101.96%	60.42%	11.15%	16.33%	29.40%
Annual Rate of Return	11.24%	25.66%	5.59%	(0.24)%	(3.67)%

STATEMENTS OF OPERATIONS

For the years ended December 31	2002	2001
Investment Income:		
Income from Investments	$ 1,159,371	$ 1,139,390
Interest	913,705	1,134,670
	2,073,076	2,274,060
Expenses (Note 5):		
Interest and Bank Charges	280,057	447,664
Management Fee	163,351	173,643
General and Administrative	103,027	132,469
	546,435	753,776
Net Investment Income	1,526,641	1,520,284
Net Realized and Unrealized Gain (Loss) on Investments:		
Net Realized Gain (Loss) from Investment Transactions	751,505	(2,015,397)
Change in Net Unrealized Gain (Loss) on Investments	(708,012)	4,154,223
Net Gain on Investments	43,493	2,138,826
Net Increase in Net Assets Resulting from Operations	$ 1,570,134	$ 3,659,110

STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31	2002	2001
Net Assets at Beginning of Year	$ 15,972,271	$ 15,502,463
Operations:		
Net Increase in Net Assets Resulting from Operations	1,570,134	3,659,110
Distributions to Unitholders	(1,407,560)	(1,573,464)
Unitholder Transactions:		
Repurchase of Units	(2,126,039)	(1,615,838)
Net (Decrease) Increase in Net Assets	(1,963,465)	469,808
Net Assets at End of Year	$ 14,008,806	$ 15,972,271

The accompanying notes to financial statements are an integral part of these financial statements.

STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2002 Description	No. of Units or Face Value	Cost	Market Value
Air Canada Inc. 9% due June 1, 2006	500,000	$ 401,250	$ 400,000
Calpine Canada Energy Finance 8.75% due October 15, 2007	700,000	544,250	322,000
CHIP REIT 8.5% due September 1, 2007	104,000	104,000	104,000
Finlay Enterprises, Inc. 9% due May 1, 2008	500,000	721,568	710,100
Hurricane Hydrocarbons Ltd. 12% due August 4, 2006	300,000	473,252	478,134
Lindsey Morden Group Inc. 7% due June 16, 2008	500,000	325,000	380,000
Millar Western Forest Products Ltd. 9.875% due May 15, 2008	300,000	435,648	444,996
Morguard REIT 8.5% due April 1, 2007	501,000	501,000	497,994
Norampac Inc. 9.375% due February 1, 2008	500,000	500,000	525,000
Petrobank Energy and Resources Ltd. 9% due July 31, 2006	500,000	440,000	435,000
Scott Paper Limited 10% due June 6, 2007	500,000	486,250	495,000
Tembec Inc. 8.3% due January 30, 2003	500,000	501,550	500,500
HIGH YIELD DEBT: 25.4%		5,433,768	5,292,724
Advantage Energy Income Fund	40,000	461,900	520,000
ARC Energy Trust	50,000	605,076	595,000
Canadian Oil Sands Trust	15,000	585,900	570,750
Enerplus Resources Fund	20,000	533,604	561,000
Focus Energy Trust	50,000	493,365	507,500
NAL Oil & Gas Trust	45,000	409,500	405,000
Pengrowth Energy Trust	35,000	490,000	515,550
PrimeWest Energy Trust	15,000	393,000	381,000
Ultima Energy Trust	80,000	461,600	412,000
Viking Energy Royalty Trust	35,000	261,945	247,450
OIL AND GAS ROYALTY TRUSTS: 22.6%		4,695,890	4,715,250
Canadian Apartment Properties Real Estate Investment Trust	20,000	214,102	259,000
Canadian Real Estate Investment Trust	30,000	395,246	393,900
Cominar Real Estate Investment Trust	35,000	413,812	422,450
H&R Real Estate Investment Trust	35,000	401,800	467,250
IPC US Income Commercial Real Estate Investment Trust	20,000	214,535	196,000
Morguard Real Estate Investment Trust	40,000	350,811	340,000
Retirement Residences Real Estate Investment Trust	25,000	293,730	294,000
RioCan Real Estate Investment Trust	35,000	369,059	436,450
Summit Real Estate Investment Trust	30,000	461,530	453,900
TGS North American Real Estate Investment Trust	50,000	500,000	502,500
REAL ESTATE INVESTMENT TRUSTS: 18.0%		3,614,625	3,765,450
Atlas Cold Storage Income Trust	40,000	420,000	450,000
BFI Canada Income Fund	35,000	381,890	414,750
CCS Income Fund	20,000	334,600	336,000
Clearwater Seafoods Income Fund	30,000	300,000	310,350
Davis + Henderson Income Fund	30,000	330,750	385,800
Heating Oil Partners Income Fund	30,000	355,500	354,900
KCP Income Fund	30,000	300,000	340,500
Livingston International Income Fund	25,000	260,044	284,250
Sun Gro Horticulture Income Fund	30,000	324,000	313,500
Superior Propane Income Fund	25,000	413,461	492,000
BUSINESS TRUSTS: 17.6%		3,420,245	3,682,050
Boralex Power Income Fund	50,000	527,900	512,500
Great Lakes Hydro Income Fund	35,000	525,490	533,050
Inter Pipeline Fund	75,000	750,000	461,250
Pembina Pipeline Income Fund	45,000	471,908	490,500
TransAlta Power L.P.	50,000	466,491	468,000
TransCanada Power L.P.	15,000	473,220	463,500
PIPELINE AND POWER GENERATION TRUSTS: 14.0%		3,215,009	2,928,800
CASH: 2.4%		492,935	492,935
Total Investment Portfolio, including Cash		$ 20,872,472	$ 20,877,209

The accompanying notes to financial statements are an integral part of this financial statement.

STATEMENTS OF NET REALIZED GAIN (LOSS) FROM INVESTMENT TRANSACTIONS

For the years ended December 31	2002	2001
Proceeds from Sale of Investments	$ 25,932,360	$ 14,609,325
Less: Cost of Investments Sold:		
Owned at Beginning of Year	22,944,319	25,791,793
Purchased During Year	22,616,073	13,777,248
Owned at End of Year	(20,379,537)	(22,944,319)
	25,180,855	16,624,722
Net Realized Gain (Loss) from Investment Transactions	$ 751,505	$ (2,015,397)

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

1. SAGE *Income Fund*

SAGE *Income Fund* (formerly SAGE High Yield Debt Trust) (the "Fund") is a closed-end investment trust established under the laws of the Province of Ontario on October 17, 1997. The investment objective of the Fund is to produce a high level of sustainable income while preserving capital and to enhance returns by investing in securities with the potential for capital appreciation. SAGE Management Limited (formerly SAGE High Yield Management Limited) (the "Manager") is the manager and Middlefield Securities Limited (the "Advisor") is the advisor to the Fund.

2. Summary of Significant Accounting Policies

a. Valuation of Investments

Securities listed on a public stock exchange are valued at their closing sale price on the valuation date. Securities not traded on that date are valued at the average of the closing recorded bid and ask prices. Short-term investments are recorded at cost.

b. Investment Transactions and Income Recognition

Investment transactions are accounted for as of the trade date and any realized gains or losses from such transactions are calculated on an average cost basis. Income from investments is recognized on the ex-dividend or ex-distribution date, and interest income on the accrual basis.

c. Income Taxes

The Fund qualifies as a unit trust under the provisions of the *Income Tax Act* (Canada). Under the terms of the trust agreement, any taxable income of the Fund is distributable quarterly to unitholders of record date. The Fund is not subject to tax on the income distributed to unitholders. Accordingly, no provision for income taxes is required.

d. Foreign Currency Translation

Foreign currency amounts are translated into Canadian dollars as follows: market value of investments, forward currency contracts and other assets and liabilities, at the closing rate of exchange on each business day; income and expenses, and purchases, sales and settlements of investments, at the rate of exchange prevailing on the respective dates of such transactions.

e. Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Statements of Financial Highlights

The information disclosed in these statements is calculated as follows:

a. Net asset value per unit is calculated at the end of each day on which the Toronto Stock Exchange is open for trading by dividing the net assets of the Fund by its outstanding units.
b. Net investment income per unit is calculated based on the average number of units outstanding during the period.
c. The management expense ratio which is the ratio of expenses to average net assets is based on annualized expenses for the stated period, excluding interest and bank charges.
d. Portfolio turnover rate is calculated based on the lesser of purchases or sales of investments divided by the average market value of the portfolio excluding short-term investments.
e. Annual rate of return represents the historical total return of an investment for the year, assuming reinvestment of all distributions.

4. Loan Payable

The revolving operating credit facility is for $10 million and is secured by a general security agreement. The facility matured on October 9, 2002 and was renewed with a maturity of October 7, 2003. At December 31, 2002, loans outstanding included bankers' acceptances with a face value of $6.85 million (2001 – $8.05 million).

5. Management Fee and Operating Expenses

The Manager and the Advisor provide investment management and administrative services to the Fund. In consideration for such services the Manager receives a management fee equal to 1% per annum of the net asset value calculated and paid monthly in arrears based on the net asset value at the end of the preceding month. The Manager is reimbursed for reasonable costs related to maintaining the Fund and preparation and distribution of financial statements and other documents sent to unitholders. The Fund is responsible for the payment of all expenses relating to the operation of the Fund and the carrying on of its business.

6. Unitholders' Equity

The Fund issued 2,285,000 units at $15.00 per unit. During 2002, the Fund purchased 120,500 units (2001 – 112,800) pursuant to a normal course issuer bid and 50,000 units (2001 – 24,200) in the market in accordance with the trust agreement.

7. Distributions

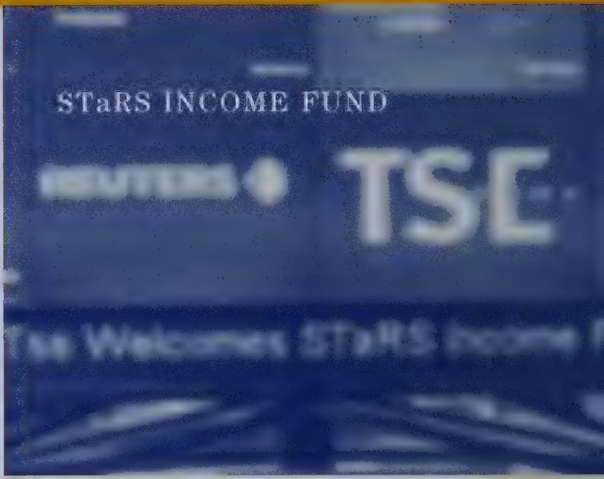
Commencing with the quarter ended December 31,1997 and on a quarterly basis thereafter, each unitholder is entitled to receive their pro rata share of cash distributions. In 2002, distributions amounted to $1.20 per unit (2001 – $1.20). Distributions of the Fund, at the discretion of the unitholder, are reinvested in additional units of the Fund, under the Distribution Reinvestment Plan (the "Plan") without sales charge. During 2002, 1,574 units (2001 – 1,373) were purchased under the Plan.

8. Reclassifications

Certain prior year balances have been reclassified to conform with current year presentation.

STaRS Income Fund

2002 marked the first full year of operations for the Fund. Despite another tumultuous year for the broader equity market, STaRS had a very successful year, meeting its objective of providing stable monthly distributions. For the year ended December 31, 2002, STaRS provided unitholders with a total rate of return of 12.8%. On an annualized basis, the current per unit distribution rate of $0.075 per month represents a cash-on-cash yield of 9.0% based on the issue price of $10.00 per unit. In addition, a special distribution of $0.05 per unit was declared payable to unitholders of record on April 30, 2003.



MANAGEMENT'S DISCUSSION AND ANALYSIS

INVESTMENT OBJECTIVES AND STRATEGY

The primary objectives of STaRS Income Fund are: (i) to provide unitholders with a stable stream of monthly distributions targeted to be 9.0% per annum on the original issue price of $10.00 per unit and (ii) to return the original issue price of the units to unitholders upon termination of the Fund on December 31, 2013, as well as to provide unitholders with capital appreciation above the original issue price. To provide downside protection, the Fund has entered into a forward agreement with CIBC pursuant to which CIBC will make a capital support payment of $5.00 per unit to the Fund on the termination date. The Fund invests in a diversified managed portfolio consisting of oil and gas royalty trusts, real estate investment trusts, business trusts, power and pipeline trusts and high yield debt securities. The Fund combines the investment management experience of both Middlefield and Guardian Capital Inc., who act as co-advisors to the Fund, responsible for asset mix and security selection.

STaRS, which is focused on the oil and gas royalty trust sector, seeks to achieve its objectives through careful security selection among the longer reserve life and more stable oil and gas trusts. In 2002, the royalty trust sector generated strong absolute and relative returns as crude oil and natural gas prices exceeded expectations. The royalty trust component is supplemented by REITs, business trusts, pipeline and power generation trusts and high yield debt. REITs, pipeline and power generation trusts offer cash flow stability as a result of their contractual revenue streams. Business trusts and high yield debt provide further diversification across a number of industries and geographic regions. This strategy provides a positive balance of stable current income, significant tax deferral and potential for capital appreciation.

PORTFOLIO SUMMARY

as at December 31, 2002

Oil and Gas Royalty Trusts	39%
REITs	29%
Business Trusts	17%
High Yield Debt	9%
Pipeline and Power Generation Trusts	5%
Cash	1%

TOP FIVE HOLDINGS

as at December 31, 2002

1. Superior Propane Income Fund
2. Advantage Energy Income Fund
3. Enerplus Resources Fund
4. RioCan Real Estate Investment Trust
5. Summit Real Estate Investment Trust

The broad diversification of the STaRS portfolio will serve to mitigate the risk associated with investing in the royalty trust and high yield debt asset classes. Additionally, the inclusion of 50% capital protection in STaRS provides a significant buffer against a decline in the value of the managed portfolio. We anticipate that STaRS will distribute $0.075 per unit on a monthly basis throughout the course of 2003, representing a yield of 9% on an annualized basis on the offering price of $10 per unit.

MANAGEMENT AND ADVISORY SERVICES

Guardian Capital Inc. ("GCI") and Middlefield Securities Limited ("MSL") are the co-advisors (the "Co-Advisors") to the Fund's managed portfolio. GCI currently manages approximately $9.5 billion in client assets and provides both domestic and global investment management services to the institutional market. It has one of the broadest product ranges among Canadian institutional investment managers spanning equity, fixed income and balanced investment mandates. GCI manages segregated portfolios, pooled funds and income funds. MSL and its affiliates provide a variety of financial services including investment management, corporate finance, merchant banking, mergers and acquisitions, advisory and security placement services. The Co-Advisors have established an investment committee comprised of nominees of each Co-Advisor to review and approve all investment recommendations.

Management is responsible for the existence of appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable. The board of directors and audit committee have an oversight role to ensure the integrity of the reported information.

SECTOR ANALYSIS

Oil and Gas Royalty Trusts 39.4%

For a third consecutive year, conventional oil and gas royalty trusts were excellent performers. Stronger commodity prices combined with disciplined management over the past year produced exceptional returns for investors. After reaching a low of US$17.97 per barrel in January of 2002, WTI crude oil prices steadily increased throughout the remainder of the year, closing the year at US $31.20 per barrel. The main factors affecting oil prices were the possibility of military conflict with Iraq and tightening crude oil supplies, which was compounded in December by a labour strike in Venezuela, effectively shutting down oil production. Natural gas prices also strengthened due to widespread concerns over declining North American gas supply. Henry Hub natural gas exited 2002 at US $4.79/mmbtu, which was up 86.3% from year-end 2001. These developments benefited several royalty trust investments including Advantage, Ultima and Enerplus, which reported total returns of 81%, 44% and 27%, respectively for the twelve months ended December 31, 2002.

Real Estate Investment Trusts 29.3%

The Canadian REIT universe outperformed the broader equity market by generating a total return of 7.6%, versus a 12.3% decline experienced by the S&P/TSX Composite Total Return Index in 2002. Since the mid-1990s, REITs have delivered strong returns through various market cycles, outperforming the S&P/TSX in six of the past eight years. The Canadian REIT market continues to be supported by reasonable valuations, stable net asset values, low interest rates and a transparent business model. However, some sectors such as apartment REITs are currently experiencing some weakness. Competition from low interest rate-financed home ownership and the corresponding increased supply of condominiums in the GTA has drawn demand away from the rental market. In light of these developments, the Fund has adopted an underweight position in the residential REIT sector.

Business Trusts 17.2%

STaRS steadily increased its exposure to the rapidly expanding business trust sector with the addition of several new trusts. Among the new business trusts added to the Fund's portfolio are Clearwater Seafoods Income Fund, KCP Income Fund and Heating Oil Partners Income Fund. STaRS also expanded its position in Superior Propane Income Fund. Superior Propane is Canada's largest propane marketer. Superior Propane recently acquired the pulp chemicals business of Sterling Chemicals Inc., one of two producers in the world of sodium chlorate which is used mainly for the generation of chlorine dioxide for pulp wood bleaching, and changed its name to Superior Plus Income Fund.

Pipeline and Power Generation Trusts 5.0%

STaRS selectively invests in power generation trusts that demonstrate good stability and growth potential, as well as those that are supported by the intellectual and financial capital of their sponsoring companies. STaRS modestly reduced its exposure to the sector in 2002. Nonetheless, power generation trusts remain an integral part of STaRS' portfolio and provide investors with stable cash distributions supported by high quality assets and long-term power purchase agreements with creditworthy utilities. Exposure to the pipeline trust sector was also reduced during 2002. As with power generation trusts, pipeline trusts are characterized by very stable revenue streams and exhibit a strong correlation with movements in long term interest rates. As evidence of a sustained economic recovery builds, we expect the Bank of Canada to raise interest rates in order to keep inflation within the target range of 1% to 3%.

High Yield Debt 8.5%

In 2002, the Fund marginally reduced its exposure to high yield debt securities in favour of income trust investments. Various high yield debt investments were replaced with income trusts offering greater liquidity and a more attractive balance between risk and return. Looking forward, the Co-Advisors will continue to monitor the high yield debt market and make selective investments in debt securities with an attractive risk-return profile.

OPERATIONS

Income and Expenses

STaRS commenced operations on December 12, 2001. As a result, there are no year over year comparatives. The total investment income for the year ended December 31, 2002 amounted to $9.4 million derived mostly from the Fund's investment in income trusts. Net investment income for the year amounted to $7.1 million or $0.86 per unit. For the year ended December 31, 2002, the net gain on the Fund's investments totaled $3.5 million or $0.36 per unit.

Management fees for the year ended December 31, 2002 amounted to $0.9 million and interest and bank charges amounted to $0.8 million for the same period. The ratio of management fees and other operating expenses (excluding interest and bank charges) to average net asset value ("MER") was 1.88% for the year ended December 31, 2002.

Balance Sheet

At year end, the Fund's net asset value ("NAV") per unit was $9.86 compared to $9.47 at December 31, 2001. The increase in the Fund's NAV per unit is primarily attributable to the strong performance of certain investments in the managed portfolio and appreciation in the value of the Fund's forward agreement. A $2.6 million unrealized gain has been reflected in the value of the forward agreement as at year end.

At inception, the Fund entered into a forward agreement with Canadian Imperial Bank of Commerce ("CIBC") pursuant to which CIBC will pay the Fund an amount equal to $5.00 or 50% of the original issue price for each unit outstanding on the termination date in exchange for the Fund delivering to CIBC the equity securities in the fixed portfolio. The capital protection in STaRS acts as a stabilizer to offset volatility in the value of the managed portfolio.

BUSINESS RISK ASSESSMENT

There are a number of risks associated with the investment business. The following outlines some of the principal risks.

Market Risk

Market risk is the exposure to capital market price changes which have a direct effect on the net asset value of the Fund. Active management of the securities held in the investment portfolio by the Co-Advisors' investment committee may reduce the volatility of market price fluctuations.

Income Risk

Income risk arises from a number of factors related to the operating performance of the issuers of the securities held in the portfolio. These include, for example, commodity prices, interest rates and competition. These may adversely affect the issuer's income and thereby reduce the amount of dividends, interest and other income distributions they make to their securityholders. Diversification and active management by the Co-Advisors to maximize income mitigates exposure to this risk.

Counterparty Credit Risk

The Fund is exposed to the credit risk associated with entering into the forward agreement with CIBC, as well as the risk that CIBC will not satisfy its obligations under the forward contract. Exposure to this risk is mitigated since the forward contract is a direct obligation of CIBC which has a credit rating of Moodys-Aa3 and DBRS-AA (low).

Tax Authorities and Securities Regulators

Changing legislation can reduce the tax advantages of certain investment vehicles. Increased regulation can also have a negative impact on expense control programs. Middlefield constantly monitors legislative and regulatory proposals so as to anticipate the effects on its managed investment portfolios.

OUTLOOK

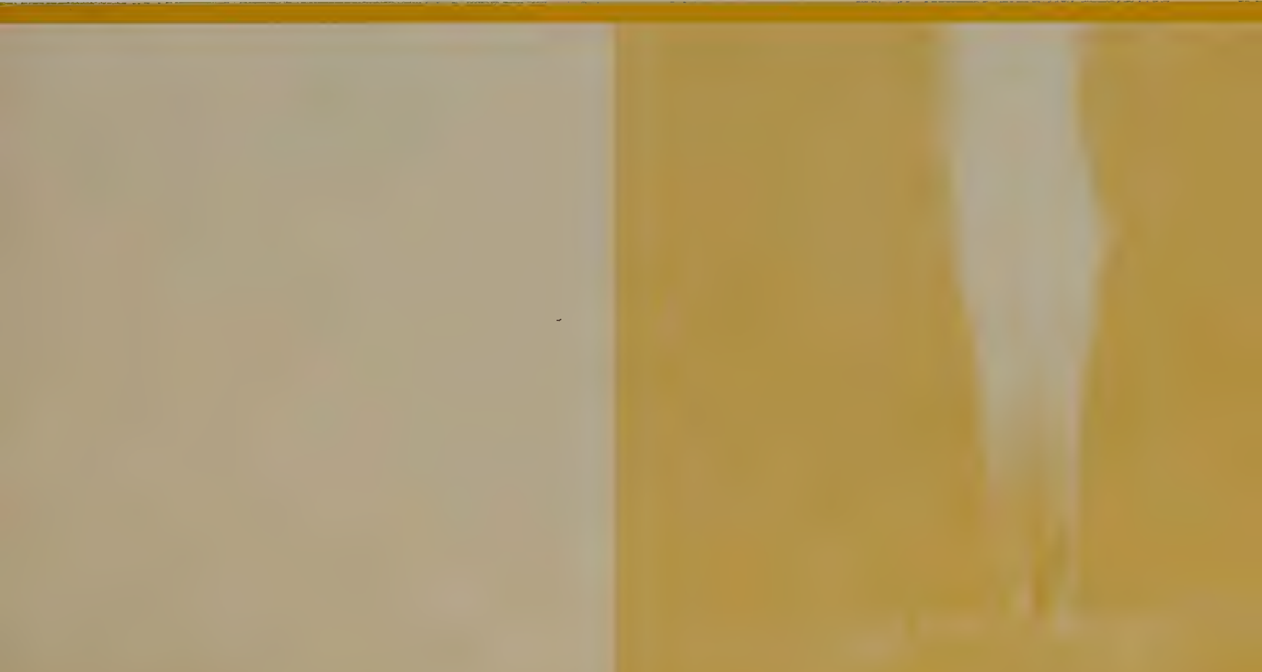
In 2003, we expect the healthy market conditions in the income trust sector that prevailed in 2002 to continue. Although the Bank of Canada will likely return to a tightening mode over the next 12 to 18 months to keep inflation in check, the extent to which interest rates rise is expected to be moderate, reflecting the uncertainty with respect to both the sustainability of the economic recovery in the U.S. and geopolitical tensions. In the near term, the prospect for a continuing correction in the price of oil appears likely, precipitated by production in Venezuela returning to normal levels and a resolution to the conflict in Iraq over the next several months. Notwithstanding these developments, the diminished supply of natural gas and the discipline displayed by OPEC in controlling crude oil production should keep oil and gas prices at levels which will support current distribution targets for royalty trusts. Generally, we expect the IPO pipeline of income trusts to remain relatively strong, and will only participate in those that meet our investment criteria.

We anticipate investors will continue to demand income producing investments as a part of an overall portfolio strategy. Historically, income trusts have been purchased primarily by individual investors or by funds purchased by individual investors. More recently, we have seen increasing levels of participation by influential institutional investors, particularly pension funds, which will provide further liquidity to this asset class.

We expect that STaRS will continue to distribute $0.075 per unit on a monthly basis throughout the course of 2003, representing a yield of 9% on an annualized basis on the offering price of $10.00 per unit.

ADDITIONAL INFORMATION

Units of STaRS trade on the Toronto Stock Exchange under the symbol STZ.UN.



AUDITORS' REPORT

To the Unitholders of STaRS *Income Fund*

We have audited the statements of net assets and investment portfolio of STaRS *Income Fund* (the "Trust") as at December 31, 2002 and the statements of operations, changes in net assets, net realized gain from investment transactions and financial highlights for the year then ended. These financial statements are the responsibility of the Manager of the Trust. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2002 and its results of operations, changes in net assets, net realized gain from investment transactions and financial highlights for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2001 and for period then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 14, 2002.

Deloitte & Touche LLP

TORONTO, ONTARIO
March 14, 2003

DELOITTE & TOUCHE LLP
Chartered Accountants

STATEMENTS OF NET ASSETS

As at December 31	2002	2001
Assets:		
Managed Investments at Market Value	$ 76,512,315	$ 22,374,313
Forward Agreement (Note 5)	22,233,500	20,651,180
Interest and Income Receivable	1,027,254	268,551
Cash and Short-Term Investments	483,378	38,480,862
	100,256,447	81,774,906
Liabilities:		
Loan Payable (Note 6)	21,414,470	–
Unitholder Distributions Payable	590,438	–
Due to Broker	–	1,570,454
Accounts Payable and Accrued Liabilities	261,275	641,260
	22,266,183	2,211,714
Net Assets	$ 77,990,264	$ 79,563,192
Units Issued and Outstanding (Note 8)	7,911,500	8,400,000

The accompanying notes to financial statements are an integral part of these financial statements.

Approved by the Board of Directors of Middlefield STRS Management Limited, as Manager:

Director: W. Garth Jestley

Director: Murray J. Brasseur

STATEMENTS OF FINANCIAL HIGHLIGHTS

For the years ended December 31	2002	2001*
Data per unit (Note 4)		
Net Asset Value at Beginning of Period	$ 9.47	$ 9.36
Income from Investment Operations:		
Net Investment Income	0.86	0.02
Net Unrealized Gain on Investments	0.36	0.09
	1.22	0.11
Distributions to Unitholders	0.83	–
Net Asset Value at End of Period	$ 9.86	$ 9.47
Ratios/supplemental Data (Note 4)		
Total Assets at End of Period	$ 100,256,447	$ 81,774,906
Total Net Assets at End of Period	$ 77,990,264	$ 79,563,192
Weighted Average Net Assets	$ 80,252,965	$ 77,470,891
Management Expense Ratio	1.88%	1.73%
Portfolio Turnover Rate	40.59%	–
Annual Rate of Return	12.83%	N/A

STATEMENTS OF OPERATIONS

For the years ended December 31	2002	2001*
Investment Income:		
Income from Investments	$ 8,388,329	$ 194,217
Interest	985,212	67,017
	9,373,541	261,234
Expenses (Note 7):		
Management Fee	942,447	51,477
Interest and Bank Charges	775,484	–
Service Fee to Investment Dealers	244,300	13,121
Marketing	210,693	12,000
General and Administrative	113,502	36,855
	2,286,426	113,453
Net Investment Income	7,087,115	147,781
Net Realized and Unrealized Gain on Investments:		
Net Realized Gain from Investment Transactions	786,851	–
Net Realized Gain on Forward Agreement	75,947	–
Change in Net Unrealized Gain on Investments	2,591,009	774,564
Net Gain on Investments	3,453,807	774,564
Net Increase in Net Assets Resulting from Operations	$ 10,540,922	$ 922,345

*For the period December 12, 2001 (date of commencement of operations) to December 31, 2001.

The accompanying notes to financial statements are an integral part of these financial statements.

STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31	2002	2001*
Net Assets at Beginning of Period	$ 79,563,192	$ –
Operations:		
Net Increase in Net Assets Resulting from Operations	10,540,922	922,345
Distributions to Unitholders	(6,752,347)	–
Unitholder Transactions:		
Proceeds from Issue of Trust Units, Net	769,771	78,640,847
Payments on Redemption of Trust Units	(4,930)	–
Repurchase of Trust Units	(6,126,344)	–
	(5,361,503)	78,640,847
Net (Decrease) Increase in Net Assets	(1,572,928)	79,563,192
Net Assets at End of Period	$ 77,990,264	$ 79,563,192

STATEMENTS OF NET REALIZED GAIN FROM INVESTMENT TRANSACTIONS

For the years ended December 31	2002	2001*
Proceeds from Sale of Investments	$ 30,648,481	$ –
Less: Cost of Investments Sold:		
Owned at Beginning of Period	21,468,443	–
Purchased During Period	84,001,856	21,468,443
Owned at End of Period	(75,608,669)	(21,468,443)
	29,861,630	–
Net Realized Gain from Investment Transactions	$ 786,851	$ –

*For the period December 12, 2001 (date of commencement of operations) to December 31, 2001.

The accompanying notes to financial statements are an integral part of these financial statements.

As at December 31, 2002

Description	No. of Units or Face Value	Cost	Market Value
Advantage Energy Income Fund	240,000	$ 2,633,210	$ 3,120,000
ARC Energy Trust	250,000	3,019,865	2,975,000
Canadian Oil Sands Trust	55,000	2,332,037	2,092,750
Enerplus Resources Fund	110,000	2,704,113	3,085,500
Focus Energy Trust	210,000	2,117,850	2,131,500
NAL Oil & Gas Trust	240,000	2,194,942	2,160,000
Pengrowth Energy Trust	200,000	2,747,976	2,946,000
PrimeWest Energy Trust	100,000	2,544,799	2,540,000
Provident Energy Trust	125,000	1,097,850	1,343,750
Shiningbank Energy Income Fund	180,000	2,496,108	2,727,000
Ultima Energy Trust	430,000	1,648,200	2,214,500
Viking Energy Royalty Trust	420,000	2,813,917	2,969,400
OIL AND GAS ROYALTY TRUSTS: 39.4%		28,350,867	30,305,400
Canadian Hotel Income Properties Real Estate Investment Trust	225,000	1,968,005	2,025,000
Canadian Real Estate Investment Trust	125,000	1,622,223	1,641,250
Cominar Real Estate Investment Trust	130,000	1,538,500	1,569,100
H&R Real Estate Investment Trust	185,000	2,573,718	2,469,750
IPC US Income Commercial Real Estate Investment Trust	220,000	2,241,465	2,156,000
Morguard Real Estate Investment Trust	280,000	2,436,365	2,380,000
Residential Equities Real Estate Investment Trust	45,000	678,795	607,050
Retirement Residences Real Estate Investment Trust	245,000	3,143,881	2,881,200
RioCan Real Estate Investment Trust	245,000	2,944,376	3,055,150
Summit Real Estate Investment Trust	200,000	3,005,760	3,026,000
TGS North American Real Estate Investment Trust	75,000	750,000	753,750
REAL ESTATE INVESTMENT TRUSTS: 29.3%		22,903,088	22,564,250
Advanced Fiber Technologies Income Fund	100,000	1,035,852	1,035,000
Atlas Cold Storage Income Trust	80,000	881,951	900,000
Chemtrade Logistics Income Fund	60,000	838,150	840,000
Clearwater Seafoods Income Fund	75,000	754,729	775,875
Davis + Henderson Income Fund	100,000	1,066,560	1,286,000
Heating Oil Partners Income Fund	100,000	1,000,000	1,183,000
IAT Air Cargo Facilities Income Fund	115,000	1,270,750	1,158,050
KCP Income Fund	85,000	850,000	964,750
Rogers Sugar Income Fund	90,000	406,725	423,000
Superior Propane Income Fund	160,000	2,848,958	3,148,800
Versacold Income Fund	100,000	863,552	805,000
Westshore Terminals Income Fund	150,000	914,422	732,000
BUSINESS TRUSTS: 17.2%		12,731,649	13,251,475
Boralex Power Income Fund	60,000	606,045	615,000
Great Lakes Hydro Income Fund	25,000	355,180	380,750
Inter Pipeline Fund	260,000	1,904,863	1,599,000
Pembina Pipeline Income Fund	100,000	1,140,710	1,090,000
TransCanada Power, L.P.	5,000	158,395	154,500
PIPELINE AND POWER GENERATION TRUSTS: 5.0%		4,165,193	3,839,250
Bowater Inc. 10.85% due November 30, 2014	300,000	341,550	331,500
Crown Castle International Corp. 10.75% due August 1, 2011	1,000,000	1,587,526	1,412,310
Hurricane Hydrocarbons Ltd. 12% due August 4, 2006	600,000	942,362	956,268
Lindsey Morden Group Inc. 7% due June 16, 2008	500,000	340,000	380,000
Microcell Telecommunications Inc. 14% due June 1, 2006	300,000	447,394	14,202
Petrobank Energy and Resources Ltd. 9% due July 31, 2006	300,000	243,000	261,000
Rogers Cablesystems Ltd. 9.65% due January 15, 2014	250,000	265,625	242,500
Rogers Cantel Inc. 10.5% due June 1, 2006	1,050,000	1,117,312	1,029,000
Shaw Communications 7.4% due October 17, 2007	500,000	401,750	465,000
Sherritt Power Corporation 12.125% due March 31, 2007	250,000	170,425	226,250
SR Telecom Inc. 8.15% due April 22, 2005	300,000	213,750	159,000
Star Choice Communications Inc. 13% due December 15, 2005	500,000	853,978	741,660
Stelco Inc. 10.4% due November 30, 2009	300,000	228,000	279,000
Vicwest Corporation 12.5% due March 10, 2007	350,000	305,200	54,250
HIGH YIELD DEBT: 8.5%		7,457,872	6,551,940
CASH: 0.6%		483,378	483,378
Total Managed Investment Portfolio, including Cash		$ 76,092,047	$ 76,995,693

The accompanying notes to financial statements are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

1. STaRS *Income Fund*

STaRS *Income Fund* (the "Fund") is a closed-end investment trust established under the laws of the Province of Ontario on November 27, 2001. Middlefield STRS Management Limited (the "Manager") is both the manager and trustee and Guardian Capital Inc. and Middlefield Securities Limited are the co-advisors to the Fund. The Fund was listed on the Toronto Stock Exchange and effectively commenced operations on December 12, 2001 when it first issued units through an initial public offering.

2. Investment Objectives and Strategy

The Fund's investment objectives are (i) to provide unitholders with a stable stream of monthly distributions and (ii) to return the original issue price of the units to unitholders upon termination of the Fund on December 31, 2013, as well as to provide unitholders with capital appreciation above the original issue price. To achieve the second objective, the Fund entered into a forward purchase and sale agreement (the "Forward Agreement") pursuant to which the counterparty will pay to the Fund an aggregate amount equal to $5.00 (being an amount equal to 50% of the original issue price) for each unit outstanding on the termination date in exchange for the Fund delivering to the counterparty certain equity securities which the Fund purchased with approximately 24% of the gross proceeds from the initial offering of units (the "Fixed Portfolio"). The balance of the net proceeds of the initial offering together with draw-downs under the loan facility are invested in a diversified portfolio (the "Managed Portfolio") of income trusts including oil and gas royalty trusts, real estate investment trusts, business trusts, pipeline and power generation trusts as well as high yield debt.

3. Summary of Significant Accounting Policies

a. Valuation of Investments

Securities listed on a public stock exchange are valued at their closing sale price on the valuation date. Securities not traded on that date are valued at the average of the closing recorded bid and ask prices. Short-term investments are valued at cost.

The value of the Forward Agreement is the market value of securities in the Fixed Portfolio and the gain or loss that would be realized if the positions are closed out on the valuation date unless "daily limits" are in effect, in which case fair value shall be based on the current market value of the underlying interest provided that valuation of the Forward Agreement may be postponed for up to five business days if the trading in the shares of an issuer in the Fixed Portfolio is suspended from trading at such times.

b. Investment Transactions and Income Recognition

Securities transactions are accounted for as of the trade date and any realized gains or losses from such transactions are calculated on an average cost basis. Income from investments is recognized on the ex-dividend or ex-distribution date, and interest income on an accrual basis.

c. Income Taxes

The Trust qualifies as a mutual fund trust under the provisions of the *Income Tax Act* (Canada). Under the terms of the Declaration of Trust, any taxable income of the Fund is distributable monthly to unitholders of record date. The Fund is not subject to tax on the income distributed to unitholders. Accordingly, no provision for income taxes is required.

d. Foreign Currency Translation

Foreign currency amounts are translated into Canadian dollars as follows: market value of investments, forward currency contracts and other assets and liabilities, at the closing rate of exchange on each business day; income and expenses, and purchases, sales and settlements of investments, at the rate of exchange prevailing on the respective dates of such transactions.

e. Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

4. Statements of Financial Highlights

The information disclosed in these statements is calculated as follows:

a. Net asset value per unit is calculated at the end of each day on which the Toronto Stock Exchange is open for trading by dividing the net assets of the Fund by its outstanding units.
b. Net investment income per unit is calculated based on the average number of units outstanding during the period.
c. The management expense ratio which is the ratio of expenses to average net assets is based on annualized expenses for the stated period, excluding interest and bank charges.
d. Portfolio turnover rate is calculated based on the lesser of purchases or sales of investments divided by the average market value of the managed portfolio excluding short-term investments.
e. Annual rate of return represents the historical total return of an investment for the year, assuming reinvestment of all distributions. Returns are not reported in the year that the Fund was established.

5. Forward Agreement

The Fund entered into a Forward Agreement with Canadian Imperial Bank of Commerce ("CIBC") pursuant to which CIBC will pay the Fund an amount equal to $5.00 for each unit outstanding on the termination date in exchange for the Fund delivering to CIBC the equity securities included in the Fixed Portfolio. As at December 31, 2002 the securities in the Fixed Portfolio had a cost of $19,587,639 (2001 – $20,776,322) and were comprised of common shares of Biovail Corporation, Celestica Inc., Inco Limited, Nortel Networks Corporation, Precision Drilling Corporation and Rogers Communications Inc.

Securities in the Fixed Portfolio have been pledged to CIBC as security for the obligations of the Fund under the Forward Agreement. As at December 31, 2002 the market value of the securities in the Fixed Portfolio of $11,342,076 (2001 – $21,455,184) was reflected in the Forward Agreement on the Statements of Net Assets. The Forward Agreement is a direct obligation of CIBC which has a credit rating of Moodys-Aa3 and DBRS-AA (low).

The Forward Agreement may be physically or cash settled at the option of the Fund. In order to permit the Fund to fund periodic redemption of units, the Forward Agreement may be settled in whole or in part in respect of any valuation date by the Fund tendering to CIBC securities of the Fixed Portfolio at a price equal to the current market value of the tendered securities and the value of the portion of the Forward Agreement attributable to such securities. During 2002, the Fund unwound a portion of the Forward Agreement and realized a gain of $75,947, which is recorded as Net Realized Gain on Forward Agreement on the Statements of Operations.

6. Loan Payable

The revolving term credit facility is for $25 million and is secured by a general security agreement on the Managed Portfolio. The facility matured on January 20, 2003 and was renewed with a maturity of January 19, 2004. As at December 31, 2002, loans outstanding included bankers' acceptances with a face value of $21.5 million (2001 – nil).

7. Management Fee and Operating Expenses

The Manager provides investment and administrative services to the Fund. In consideration for such services the Manager receives a management fee equal to 1.1% per annum of the net asset value, calculated and paid monthly in arrears based on the net asset value at the end of the preceding month. The Manager is reimbursed for reasonable costs related to maintaining the Fund and preparation and distribution of financial statements and other documents sent to the unitholders. The Fund is responsible for the payment of all expenses relating to the operation of the Fund and the carrying on of its business.

8. Unitholders' Equity

The Fund is authorized to issue an unlimited number of transferable, redeemable trust units, each of which represents an equal, undivided interest in the net assets of the Fund. All units have equal rights and privileges.

On December 12, 2001, the Fund issued 8 million units at $10 per unit for proceeds, net of agents' fees and issue costs, of $74.5 million. On December 21, 2001, the Fund issued 0.4 million units at $10 per unit for proceeds, net of agents' fees and issue costs, of $3.7 million and on January 9, 2002, the Fund issued 0.13 million units at $10 per unit for proceeds, net of agents' fees and issue costs, of $1.2 million, pursuant to the exercise of the over-allotment option. During 2002, the Fund purchased 0.6 million units pursuant to a normal course issuer bid.

9. Distributions

Commencing with the month ended February 28, 2002 and on a monthly basis thereafter, each unitholder is entitled to receive their pro rata share of cash distributions. For the year ended December 31, 2002, distributions amounted to $0.83 (2001 – nil) per unit.

10. Brokerage Commissions

Brokerage commissions paid in connection with security transactions during 2002 amounted to $246,820 (2001 – $42,531).

11. Statement of Portfolio Transactions

The unaudited Statement of Portfolio Transactions for the year ended December 31, 2002 will be provided, without charge, by writing to Middlefield STRS Management Limited, One First Canadian Place, P.O. Box 192, Toronto, Ontario, M5X 1A6.

12. Reclassifications

Certain prior year balances have been reclassified to conform with the current year presentation.

L to R INVESTMENT COMMITTEE MEMBERS: KEVIN HALL, GARTH JESTLEY, JOHN PRIESTMAN AND DEAN ORRICO.

DIRECTORS

Murray J. Brasseur [1,2,4,6] is Director and Chairman of the Manager and a Managing Director of the Middlefield Group. Prior to joining Middlefield in 1979, he was Vice-President and senior credit officer of Citibank N.A. as well as head of the Corporate Banking division of Citibank Canada.

George S. Dembroski [2] is a Director of the Manager for the MAXIN *Income Fund*. He was Vice-Chairman of RBC Dominion Securities Limited until January 31, 1998. He sits on the boards of several companies including Cameco Corporation, Electrohome Limited, Extendicare Inc., Durham Furniture Inc. and Murphy Oil Corporation.

H. Roger Garland [1,2,4,6] is a Director of the Manager. He was Vice-Chairman of Four Seasons Hotels Inc. until 2000, having joined the company in 1981 as Senior Vice-President, Finance. Prior to joining Four Seasons, he was a Vice-President, Corporate Banking with Citibank N.A. in Canada and Switzerland. He began his career with Price Waterhouse and qualified as a Chartered Accountant in 1966.

Bernard I. Ghert, C.M. [2] is a Director of the Manager for the MAXIN *Income Fund*. He was Chairman of Mount Sinai Hospital from 1997 to 2002, having been on the board of directors since 1974. During that time he was President of Stelworth Investments Inc. He was a director at various times of numerous organizations including Canada Deposit Insurance Corporation, CT Financial, Canada Trust and Canada Trustco, and President and C.E.O. of Cadillac Fairview Corporation Limited. He is presently an advisory Director of the Office of the Superintendent of Financial Institutions. Mr. Ghert was appointed as a Member of the Order of Canada in July 2002.

W. Garth Jestley [1,2,3,4,5,6] is Director, President and C.E.O. of the Manager and President of Middlefield Securities Limited, Co-Advisor to the funds. Prior to joining Middlefield in 1985, he was a Vice-President of Bank of Montreal and head of an international project finance unit and prior to that was a Vice-President of the Corporate Banking division of Citibank N.A. Mr. Jestley holds the Chartered Financial Analyst designation.

James S. Parsons [3,5] is a Director of the Manager, President of 2M Energy and President of several MRF Limited Partnerships. Prior to joining Middlefield in 1992, he was President of a private real estate development company and prior to that he served for 16 years with a Citibank N.A. affiliate, the Mercantile Bank of Canada.

Sylvia V. Stinson [3,5] is Director, C.F.O. and Secretary of the Manager and Executive Vice-President of the Middlefield Group. Prior to joining Middlefield in 1987, she worked with Ernst & Young and qualified as a Chartered Accountant in 1986.

Anthony P. Traub [1,3,4,5,6] is a Director of the Manager and is a founder and a Director of the Middlefield Group. Prior to founding Middlefield in 1979, he worked at Allen and Miles, qualifying as a Chartered Accountant in 1971.

Charles B. Young [1,2,4] is a Director of the Manager and is Chairman of Ascend Capital Management, London, England. He was Deputy Chairman of Canary Wharf Limited until 1998 and was Chief Operating Officer of Amerindo Investment Advisors Inc. from 1993 to 1996. He was previously President of Citibank France and Citibank Canada.

PORTFOLIO MANAGEMENT

Kevin R. Hall is a Portfolio Manager with GCI. He is also a member of GCI's Strategic Investment Committee and has been with the Guardian Group of Companies since 1994. Mr. Hall holds the Chartered Financial Analyst designation.

W. Garth Jestley is Director, President and C.E.O. of the Manager and President of Middlefield Securities Limited, Co-Advisor to the funds. Mr. Jestley holds the Chartered Financial Analyst designation.

Stephen D. Kearns is a Senior Portfolio Manager, Fixed Income with GCI, responsible for ongoing credit analysis, quantitative analysis and structured portfolio management. He is also a member of GCI's Strategic Investment Committee. He has been with GCI since 1993, and prior to that was Vice-President, Finance, with American Health Care Manufacturing (Canada). Mr. Kearns holds the Chartered Financial Analyst designation.

Dean C. Orrico is Vice-President of the Manager and Senior Vice-President of Middlefield Securities Limited, Co-Advisor to the funds. He is also responsible for the investment activities of Middlefield's merchant banking division. Prior to joining Middlefield in 1996, he was in the commercial banking division of the Toronto Dominion Bank responsible for a portfolio of commercial accounts.

John G. Priestman is a Managing Director, Canadian Equities with GCI and is a member of GCI's Strategic Investment Committee. He is responsible for managing GGOF Monthly High Income Funds, which are leading investors in the real estate investment trust, oil and gas royalty trust and income fund market sectors. He joined GCI in 1985 and prior to that, was a Portfolio Manager, Canadian Equities with Hospitals of Ontario Pension Plan.

J.J. Woolverton is a Managing Director and the Chief Operating Officer of GCI and also chairs GCI's Strategic Investment Committee. He joined GCI in 1993 and prior to that, was Vice-President, Business and Product Development with T.A.L. Investment Counsel as well as a Director and co-founder of Frank Russel Canada. Mr. Woolverton holds the Chartered Financial Analyst designation.

1. COMPASS *Income Fund*
2. MAXIN *Income Fund*
3. MINT *Income Fund*
4. PATHFINDER *Income Fund*
5. SAGE *Income Fund*
6. STaRS *Income Fund*

INVESTOR INFORMATION

AUDITORS

Deloitte & Touche LLP
Chartered Accountants

LEGAL COUNSEL

Davies Ward
Phillips & Vineberg LLP
Toronto

Fasken Martineau
DuMoulin LLP
Toronto

McCarthy Tétrault
Toronto

Ogilvy Renault
Toronto

BANKERS

Bank of Montreal
Bank of Nova Scotia

CUSTODIAN

HSBC Trust Company (Canada)
Royal Bank of Canada

ADVISORS

Guardian Capital Inc.
Middlefield Securities Limited

INVESTOR SERVICES

Investor Inquiries:
Any written inquiries other than change of address or change in registration of securities may be directed to The Secretary, Head Office.

Investors may call the Investor Relations department at 888.890.1868.

Change of address or change in registration: Please write to our Transfer Agent:

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888.890.1868
www.middlefield.com
invest@middlefield.com

Financial mailing list:
Middlefield maintains a mailing list so non-registered investors can receive quarterly financial statements and the annual report. To add your name to this list, please email or write to our Transfer Agent.

Duplicate mailings:
Some investors may receive more than one copy of publications such as quarterly financial statements and the annual report. Investors who receive duplicate mailings are asked to call or write the Investor Relations department.

TSX MARKET LISTINGS

COMPASS (CMZ.UN)
MAXIN (MXZ.UN)
MINT (MID.UN)
PATHFINDER (PAZ.UN)
SAGE (BBB.UN)
STaRS (STZ.UN)

Distribution Reinvestment Plan
For information regarding MAXIN, COMPASS, MINT, PATHFINDER and SAGE Distribution Reinvestment Plans, please contact our Investor Relations department, our transfer Agent or visit our website at www.middlefield.com. You may voluntarily terminate your participation in the Plan and elect to receive cash instead of Plan units, by delivering to the Plan Agent (or, if you are a beneficial owner of units, by having your broker or other nominee deliver to the Plan Agent (through CDS & Co., if applicable) on your behalf) a written notice of termination signed by you or your broker or other nominee, as applicable.

CORPORATE PROFILE

Since 1979, the Middlefield Group has built upon a foundation of performance to establish itself as a specialty manager of financial assets on behalf of its individual and institutional clients. Middlefield has raised and manages over $1.8 billion in assets including private and public resource funds, venture capital assets, mutual funds, high yield equity trusts and other investments. Middlefield Bancorp Limited (MBN), a merchant banking company, is a Toronto Stock Exchange listed company managed by the Group. Middlefield's greatest strength is its people and their ability to evaluate and manage risk in order to achieve the appropriate balance between security of capital, income and equity appreciation. Domestically and internationally, Middlefield is committed to providing a high level of client service in investment management, merchant banking and financial advisory services.

The following tables outline the tax treatment of the 2002 distributions of each fund on a per unit basis.

COMPASS *Income Fund*

Record Date	Payable Date	Total Distribution	Dividend Income	Other Income	Capital Gain	Return of Capital
Jun 28, 2002	Jul 15, 2002	$ 0.075000	$ 0.004832	$ 0.026416	$ 0.001316	$ 0.042436
Jul 31, 2002	Aug 15, 2002	0.075000	0.004832	0.026416	0.001316	0.042436
Aug 31, 2002	Sep 10, 2002	0.075000	0.004832	0.026416	0.001316	0.042436
Sep 30, 2002	Oct 7, 2002	0.075000	0.004832	0.026416	0.001316	0.042436
Oct 31, 2002	Nov 6, 2002	0.075000	0.004832	0.026416	0.001316	0.042436
Nov 30, 2002	Dec 3, 2002	0.075000	0.004832	0.026416	0.001316	0.042436
Dec 31, 2002	Jan 6, 2003	0.075000	0.004832	0.026416	0.001316	0.042436
	TOTAL	$ 0.525000	$ 0.033824	$ 0.184912	$ 0.009212	$ 0.297052

MINT *Income Fund*

Record Date	Payable Date	Total Distribution	Dividend Income	Other Income	Return of Capital
Mar 28, 2002	Apr 25, 2002	$ 0.180000	$ 0.009190	$ 0.091726	$ 0.079084
Jun 28, 2002	Jul 25, 2002	0.180000	0.009190	0.091726	0.079084
Sep 30, 2002	Oct 24, 2002	0.180000	0.009190	0.091726	0.079084
Dec 31, 2002	Jan 23, 2003	0.180000	0.009190	0.091726	0.079084
	TOTAL	$ 0.720000	$ 0.036760	$ 0.366904	$ 0.316336

PATHFINDER *Income Fund*

Record Date	Payable Date	Total Distribution	Dividend Income	Other Income	Return of Capital
Dec 31, 2002	Jan 15, 2003	$ 0.075000	$ 0.006825	$ 0.066053	$ 0.002122

SAGE *Income Fund*

Record Date	Payable Date	Total Distribution	Dividend Income	Other Income	Return of Capital
Mar 28, 2002	Apr 26, 2002	$ 0.300000	$ 0.015222	$ 0.141604	$ 0.143174
Jun 28, 2002	Jul 26, 2002	0.300000	0.015222	0.141604	0.143174
Sep 30, 2002	Oct 25, 2002	0.300000	0.015222	0.141604	0.143174
Dec 31, 2002	Jan 24, 2003	0.300000	0.015222	0.141604	0.143174
	TOTAL	$ 1.200000	$ 0.060888	$ 0.566416	$ 0.572696

STaRS *Income Fund*

Record Date	Payable Date	Total Distribution	Dividend Income	Other Income	Capital Gain	Return of Capital
Feb 28, 2002	Mar 15, 2002	$ 0.075000	$ 0.002868	$ 0.015015	$ 0.011094	$ 0.046023
Mar 28, 2002	Apr 15, 2002	0.075000	0.002868	0.015015	0.011094	0.046023
Apr 30, 2002	May 15, 2002	0.075000	0.002868	0.015015	0.011094	0.046023
May 31, 2002	Jun 14, 2002	0.075000	0.002868	0.015015	0.011094	0.046023
Jun 28, 2002	Jul 15, 2002	0.075000	0.002868	0.015015	0.011094	0.046023
Jul 31, 2002	Aug 15, 2002	0.075000	0.002868	0.015015	0.011094	0.046023
Aug 31, 2002	Sep 13, 2002	0.075000	0.002868	0.015015	0.011094	0.046023
Sep 30, 2002	Oct 15, 2002	0.075000	0.002868	0.015015	0.011094	0.046023
Oct 31, 2002	Nov 15, 2002	0.075000	0.002868	0.015015	0.011094	0.046023
Nov 30, 2002	Dec 16, 2002	0.075000	0.002868	0.015015	0.011094	0.046023
Dec 31, 2002	Jan 15, 2003	0.075000	0.002868	0.015015	0.011094	0.046023
	TOTAL	$ 0.825000	$ 0.031548	$ 0.165165	$ 0.122034	$ 0.506253

Holders of trust units outside of an RRSP, RRIF or DPSP should have received a T3 tax slip from their investment dealer. T3 tax slips report Other Income in Box 26, Capital Gains in Box 21 and Dividend Income in Box 23. Dividend income is subject to the standard gross-up and federal dividend tax credit rules. The Return of Capital component of the distribution is a non-taxable amount that serves to reduce the adjusted cost base of trust units.

MAXIN *Income Fund*

MAXIN *Income Fund* commenced operations in April 2003 and will pay its first distribution in May 2003 to unitholders of record on April 30, 2003. Therefore, there are no taxable distributions for 2002.

COMPASS *Income Fund* MONTHLY DISTRIBUTIONS

2002						2003			
30-Jun	$ 0.075	30-Sep	$ 0.075	31-Dec	$ 0.075	31-Jan	$ 0.075	30-Apr	$ 0.125
31-Jul	0.075	31-Oct	0.075			28-Feb	0.075		
31-Aug	0.075	30-Nov	0.075			31-Mar	0.075		

MINT *Income Fund* QUARTERLY DISTRIBUTIONS

1998		1999		2000		2001		2002		2003	
31-Mar	$ 0.22	31-Mar	$ 0.20	31-Mar	$ 0.17	31-Mar	$ 0.17	31-Mar	$ 0.18	31-Mar	$ 0.18
30-Jun	0.22	30-Jun	0.20	30-Jun	0.17	30-Jun	0.17	30-Jun	0.18		
30-Sep	0.22	30-Sep	0.20	30-Sep	0.17	30-Sep	0.18	30-Sep	0.18		
31-Dec	0.22	31-Dec	0.20	31-Dec	0.17	31-Dec	0.18	31-Dec	0.18		

PATHFINDER *Income Fund* MONTHLY DISTRIBUTIONS

2002		2003			
31-Dec	$ 0.075	31-Jan	$ 0.075	30-Apr	$ 0.075
		28-Feb	0.075		
		31-Mar	0.075		

SAGE *Income Fund* QUARTERLY DISTRIBUTIONS

1998		1999		2000		2001		2002		2003	
31-Mar	$ 0.15	31-Mar	$ 0.28	31-Mar	$ 0.29	31-Mar	$ 0.30	31-Mar	$ 0.30	31-Mar	$ 0.30
30-Jun	0.20	30-Jun	0.28	30-Jun	0.29	30-Jun	0.30	30-Jun	0.30		
30-Sep	0.20	30-Sep	0.28	30-Sep	0.29	30-Sep	0.30	30-Sep	0.30		
31-Dec	0.20	31-Dec	0.28	31-Dec	0.29	31-Dec	0.30	31-Dec	0.30		

STaRS *Income Fund* MONTHLY DISTRIBUTIONS

2002								2003			
28-Feb	$ 0.075	31-May	$ 0.075	31-Aug	$ 0.075	30-Nov	$ 0.075	31-Jan	$ 0.075	30-Apr	$ 0.125
31-Mar	0.075	30-Jun	0.075	30-Sep	0.075	31-Dec	0.075	28-Feb	0.075		
30-Apr	0.075	31-Jul	0.075	31-Oct	0.075			31-Mar	0.075		

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